INDIA
unbound



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Novel

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Plays

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Mira: Rito de Krishna, translated by Enrique Hett (1971)

Essays

'Leading From the Front', in *Belief and Experience*, edited by Arabinda Ray (1989)

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Gurcharan Das

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For Bunu, Kim and Puru

. . . When old words die out on the tongue, new melodies break forth from the heart; and where the old tracks are lost, a new country is revealed with its wonders.

—*Rabindranath Tagore*

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Introduction: The Wise Elephant

. . . the causes of wealth and poverty of nations—
the grand object of all enquiries in Political Economy.

—*Malthus to Ricardo, letter dated 26 January 1817*

The ascent of a country from poverty to prosperity, from tradition to modernity is a great and fascinating enterprise. India has recently emerged as a vibrant, free-market democracy after the economic reforms in 1991 and it has begun to flex its muscles in the global information economy. The old centralized, bureaucratic state, which killed the industrial revolution over the past fifty years, has begun a subtle but definite decline. With the rule of democracy the lower castes have gradually risen. This economic and social transformation is one of the themes of this book. The struggle of one-sixth of humanity for dignity and prosperity seems to me a drama of the highest order and of great consequence to the future of the world. It has meaning for all of humanity and sheds new light on the future of liberalism in the world.

The story I will be telling is soft drama. It is taking place quietly and profoundly in the heart of Indian society. It unfolds every day, in small increments, barely visible to the naked eye, and is more difficult to grasp than hard drama, which is more dramatic and captures the headlines. Most people instinctively

grasp the spirituality and poverty of India. But the significance of this quiet social and economic revolution eludes them. The change is partially based on the rise of social democracy, but more importantly on a sustained 5 to 7 per cent annual economic growth that India has experienced for the past two decades. It has tripled the size of the middle class, which is expected to become half the Indian population within a generation. In the end, this 'silent revolution' is more significant historically than the constantly changing fortunes of political leaders and parties that so absorb Indians.

I have followed, I find, the method of Defoe's *Memoirs of a Cavalier*, in which the author hangs the chronicle of great political and social events upon the thread of personal experience of an individual. However, this is not autobiography. I have decided to tell the story in the first person because I believe that one person's experience, honestly captured, even on the sidelines, is not only unique, but is the only certain data of history that we possess as human beings. I did not, besides, wish this account of national competitiveness to be dry and didactic; I wished to breathe life into the clash of economic and social ideas.

When I was young, we passionately believed in Jawaharlal Nehru's dream of a modern and just India. But as the years went by we discovered that Nehru's economic path was taking us to a dead end, and the dream soured. Having set out to create socialism, we found that we had instead created statism. As a practising manager in the 1960s I found myself caught in the thick jungle of Kafkaesque bureaucratic controls. Our sense of disillusionment reached its peak during Mrs Gandhi's autocratic rule in the '70s. There was a glimmer of hope when Rajiv Gandhi became Prime Minister, but it quickly died when we discovered that he did not have what it takes. It was not until July 1991 that our mood of despair finally lifted with the announcement of sweeping liberalization by the minority government of P.V. Narasimha Rao. It was as though our second independence had arrived: we were going to be free from a rapacious and domineering state.

Although the reforms after 1991 have been slow, hesitant and incomplete, they have set in motion a process of profound change in Indian society. It is as important a turning point as Deng's revolution in China in December 1978. A half century of the ballot box has also empowered the lower castes, and this means that the fruits of the reforms are likely to be better distributed. The world has, meanwhile, changed from an industrial to an information economy, and it speaks to India's advantage—our initial success in software is the first evidence. The irony is that most Indians, especially of the ruling class, have not yet realized it. If they had, they would invest more in education and implement the reforms much faster.

One of the intriguing questions of history is why we failed to create an industrial revolution in India. Marx predicted that the railways would transform India and usher in an industrial revolution. Indeed, by the First World War, some thought that we were ready to take off. By 1914, India had the third largest railway network, the world's largest jute manufacturing industry, the fourth largest cotton textile industry, the largest canal system, and 2.5 per cent of world trade. It also had a merchant class hungry to become industrialists. After the war, industrialization did, in fact, pick up. G.D. Birla, Kasturbhai Lalbhai, and other businessmen made huge trading profits during the First World War and reinvested them in setting up industries. Between 1913 and 1938, our manufacturing output grew 5.6 per cent a year, well ahead of the world average of 3.3. By 1947, industry's share doubled to 7.5 per cent of national output from 3.4 per cent. But it was not enough to broadly transform our agricultural society. Modern industry employed only 2.5 million people out of a population of 350 million. The chief problem was our agriculture, which remained stagnant, and you cannot have an industrial revolution without an agricultural surplus or the means to feed a rapidly growing urban population.

After we won freedom, Jawaharlal Nehru and his planners attempted an industrial revolution through the agency of the state. They did not trust private entrepreneurs, so they made

the state the entrepreneur. Not surprisingly, they failed, and India is still paying a huge price for their follies. Instead, we experienced an agricultural revolution. Ironically, we now had an important precondition in place—an agricultural surplus—but the industrial revolution continues to elude us.

When I was in college, we talked about India as though it were an airplane and we wondered when it would take off into self-generating growth. No one asked 'if' it would take off—the only question was 'when'. During the take-off, economists told us, the nation's investment rate would climb to 10 to 12 per cent. Well, our investment rate in India has been well over 20 per cent for two decades, and yet we have not transformed our society. Why? There were at least six things wrong with India's mantra: one, it adopted an inward-looking, import-substituting path, rather than an outward-looking, export-promoting route; it thus denied itself a share in world trade and the prosperity that trade brought in the post-war era. Two, it set up a massive, inefficient, and monopolistic public sector to which it denied autonomy of working; hence, our investments were not productive and we had a poor capital-output ratio. Three, it over-regulated private enterprise with the worst controls in the world, and this diminished competition in the market; besides, our merchant-businessmen were not 'tinkerers' and they were slow to innovate. Four, it discouraged foreign capital and denied itself the benefits of technology and world-class competition. Five, it pampered organized labour to the point where we have extremely low productivity. Six, and perhaps most important, it ignored the education of half its children, especially of girls.

In part, this is a story of the betrayal of the last two generations by India's rulers. In stubbornly persisting with the wrong model of development (especially after 1970, when there was clear evidence that this path was doomed) they suppressed growth and jobs and denied their people an opportunity to rise above poverty. It is ironic that men and women of goodwill created this order and were widely admired. After all, they succeeded in institutionalizing democracy. The

second irony is that in the name of the poor they pig-headedly refused to change course. The worst indictment of Indian socialism is that in the end it did very little for the poor. All the countries of East Asia did far better. Even China, with all its convulsions over the past fifty years, has done a better job at improving the lives of its people. Our failure in the end came less from ideology and more from poor management.

Hence, India's per capita income is $380, which places it 124th out of 157 countries. In 1960, it was higher than China's, but today it is half. Although by purchasing power parity, India's income rises to $1580, that is not enough to lift its global rank. Half the Indian people are poor by the international poverty line of one dollar per person per day and a third of the world's poor are in India. An Indian's life expectancy is sixty-three years, lower than that in many poor countries. As many as sixty-five out of 1,000 infants die, and that is too high; two-thirds of the children suffer from malnutrition and are underweight. Seventy-one per cent cannot access sanitation. Four out of ten Indians are illiterate. Therefore, India is ranked 134th out of 174 countries on UNDP's Human Development Index. India's performance is not good enough. Other similarly placed countries have done better.

To top this tale of India's lost decades, members of the Indian ruling elite—the politicians, the MPs, the senior bureaucrats, and the economic planners—are not contrite. They complacently proclaim, 'After all, we have done rather well compared to the 3.5 per cent Hindu rate of growth.' There is no more defeatist expression in the dictionary than this fatalistic phrase. They feel no humiliation that India has lagged behind in a Third Worldish twilight while its neighbours in East and South-East Asia have gone ahead. There is no feeling of shame that countries with a fraction of India's natural and human resource potential have created some of the most prosperous societies in the world. They have used the recent troubles of East Asia to justify our incomplete and frustratingly slow reforms. When individuals blunder, it is unfortunate and their families go down. When rulers fail, it is a national tragedy.

Indians have not traditionally accorded a high place to the making of money. The Vaishya or merchant is placed third in the four-caste hierarchy, behind the Brahmin and the Kshatriya, and only a step ahead of the labouring Shudra. Since the economic reforms making money has become increasingly respectable and the sons of Brahmins and Kshatriyas are getting MBAs and want to become entrepreneurs. India is in the midst of a social revolution rivalled, perhaps, only by the ascent of Japan's merchant class during the 1868 Meiji Restoration, which helped transform Japan from an underdeveloped group of islands into a thriving modern society and economy. The commercial spirit is not limited to the cities. The smallest village has found it. On a visit to Pondicherry from Madras a few years ago, I stopped at a roadside village cafe where fourteen-year-old Raju was hustling between the tables. He served us good south Indian coffee and vadas. Raju told us that this was his summer job and it paid 400 rupees a month—enough to pay for computer lessons in the evenings in the neighbouring village. For the next summer, his aunt in Madras had arranged a job for him in a computer company.

'What will you do when you grow up?' I asked. 'I am going to run a computer company,' said Raju. He had decided this when 'I saw it in TV, where this man, Bilgay [sic], has a software company and he is the richest man in the world.'

In Bartoli, a sleepy village of 600 families in the heart of feudal Uttar Pradesh, a government schoolteacher lamented: 'Everyone has become money minded. Even the leather workers, low down on the social scale, are removing their children from my school and putting them into this newfangled private "English" school which opened six months ago. Can you believe it—they are willing to spend thirty rupees a month of their hard-earned money when it costs one rupee a month in my school!' They were leaving his school 'because they watch TV; they want to learn English; they want to get rich. This is what happens when the "low" castes get uppity. No one wants to work on the land.'

'There is no loyalty left, sir,' added Fateh Singh, who stood shyly outside the door and would not sit with us because he is from a 'low' caste. He complained that his grown-up nephew, Vikas, wanted to set up a factory to make steel trunks in nearby Khurja rather than become a conductor in the state-run bus company like his father. Indians are slowly realizing that economic reforms are not only about tariff levels, deregulation and structural adjustment. They are about a revolution in ideas which is changing the mindset of the people and leading to the 'baniaization of Indian society'.

Rich countries were supposed to specialize in the knowledge industries of tomorrow and poor countries in low-wage, low-skill industries of yesterday. This was the theory, but someone forgot to tell Bangalore (and Hyderabad, Chennai, Gurgaon, and Pune). Every day these days we read about a new success in the new 'knowledge economy', and we wonder if, at last, we may have arrived. There are 325 software companies in Bangalore. Most of them have customers in America, who e-mail their needs before they leave their offices. While they sleep, Indian engineers work on their problems. By the next morning, as they bring their coffee mugs to their desks, Americans have their answers as they log on.

One of these companies is Infosys, which started out with a Rs 10,000 capital; in February 2000, it was worth Rs 66,000 crore and more than a hundred of its managers were each worth over a million dollars. Another is NIIT, which has franchised (like McDonald's hamburgers) 750 computer schools in Indian bazaars and in thirty-one countries. It plans to become the world leader in computer education. Over the last decade, it has created 750 entrepreneurs and 10,000 jobs. On 22 February 2000, Azim Premji had become the third richest man in the world on *Forbes* rankings based on the market capitalization of his software company, which crossed Rs 200,000 crore or 11.3 per cent of India's GDP. With his wealth, Premji could pay for India's fiscal deficit and still have change left over.

The spirit of the age is reflected in hundreds of entrepreneurial successes in the knowledge economy. Subhash Chandra used to be a rice trader in the 1980s and he has built

a worldwide media empire that was worth Rs 60,000 crore in February 2000; he is called the Murdoch of Asia. A tiny, two-year-old company in Bangalore called Armedia achieved a breakthrough in designing a chip for digital TV in 1999; America's Broadcom bought it for $67 million and made its forty-three employees rich beyond their wildest dreams. Ranbaxy, Dr Reddy's Labs, Cipla, and Wockhardt are building successful global businesses in generic drugs. Crest Communications in Bombay is only one of two studios outside North America with the expertise to make 3D animation films and it has recently won a contract from one of the Hollywood studios to make an animated feature film. Rajesh Jain's Internet sites were so attractive that Satyam Infoways bought them for Rs 499 crore—a nice return on the Rs 20 lakh that he invested five years ago. Around 40,000 Indians are employed in online 'remote services'—transcribing medical records, editing books, making digital maps, doing payroll accounts for customers around the world; and McKinsey projects that this could grow to a million jobs earning $50 billion in revenues by 2010.

These entrepreneurial miracles are part of a new social contract for post-reform India. The new millionaires did not inherit wealth. They have risen on the back of their talent, hard work, and professional skills. The old business houses, on the other hand, are struggling in the competitive economy created by the reforms. The dilemma of Rahul Bajaj is typical of the old companies. Bajaj is the clear leader in the world's second largest scooter and two-wheeler market. Yet, he is unable to take the next step, which is to become a global player. He has the world's lowest costs; he has successfully withstood the challenge of Japanese competitors on his home ground; he is cash-rich—making more profit than all his competitors put together. But he exports only 3 per cent of his output. Despite his awesome advantages, Bajaj does not have the confidence to take on the Hondas and Yamahas in the world market.

A decade ago, no one would have even thought of criticizing Rahul Bajaj for not thinking globally. Government rules did not permit him to have a foreign operation, or buy equity of a foreign company, or import components at a reasonable tariff, or expand capacity at will, or buy new technology without a lengthy approval process. Rahul Bajaj had a purely 'local' mindset of a shortage economy. He sold everything he produced, because demand was always ahead of supply—for a decade, there was a ten-year waiting period for his scooter. Thus, he never developed marketing or product development skills. Rahul Bajaj, is a creature of Nehruvian socialism and the Licence Raj. The legacy of forty years of a closed economy has caught up with him. He is the symbol of the 'old' India, hobbled by poor infrastructure, obstructionist bureaucrats, high tariffs and interest costs, and a 'factory mindset'.

As with Bajaj, the older Indian groups are creatures of a system they did not create. They do not have the skills to succeed in the global economy. Eight years into the reforms, they are still floundering. Success in the global economy needs three things—massive investment in human resources; a passion for product improvement; and a deeply caring attitude for customers. These companies are smart and they understand this. Then, why haven't they acquired these skills? The answer is that it takes time to change from doing what you have been doing successfully. But time is precisely what they do not have.

The beginning of the twenty-first century is a time of ferment. Two global trends have converged—both of which work to India's advantage and raise the hope that it may finally take off. One, the liberal revolution that has swept the globe in the past decade, opening economies that were isolated for fifty years and integrating them spectacularly into one global economy. India's economic reforms are part of this trend. They are dismantling controls and releasing the long-suppressed energies of Indian entrepreneurs. They are changing the national mindset, especially among the young. Because we are endowed with commercial communities, we may be in a better position to take advantage of this global tendency. Merchants understand from birth the power of compound interest, they know how to accumulate capital. The Internet has also levelled the playing

field, so that any mad, passionate Indian entrepreneur can write his own future.

Meanwhile, the information economy is transforming the world—this is the second global trend. We may not be tinkerers, but we are a conceptual people. Thus, the knowledge age potentially plays to our advantage and our success in software and the Internet is the first emerging evidence. We have wrestled with the abstract concepts of the Upanishads for 3000 years. We invented the zero. Just as spiritual space is invisible, so is cyberspace. Hence, our core competence is invisible. In information technology, we may have finally found the engine that could drive India's take-off and transform our country.

There is an old idea in economics, as old as Adam Smith, that if a rich and poor country are linked by trade, their standard of living should converge in the long run. It makes intuitive sense, because standard of living depends on productivity, and productivity, in turn, depends on technology. When a poor nation is connected, it merely adopts the technological innovations of the rich one without having to reinvent the wheel. Thereby, it grows faster and eventually catches up. Why then has convergence not happened in the past fifty years? Very simply, because the rich and poor were not joined. Two Harvard scholars, Sachs and Warner, studied this dilemma and concluded that only thirteen out of eighty-seven Third World countries were 'open' to world trade, and they grew six times faster. Between 1970 and 1990, the thirteen open countries grew at an average 4.5 per cent per capita per year compared to the 0.7 per cent growth rate of the seventy-four closed countries. India was in the latter group, and not surprisingly many East Asians were in the former. Thus, convergence did take place among the virtuous few economies, and they did substantially conquer poverty.

Now the world has changed. Whereas only 20 per cent of the world's people lived in open economies in 1970, today more than 90 per cent do, and that is why we call it a globalized world. China and India, with more than a third of the world's population, have accelerated their growth rates in the past two

decades: China (8–10 per cent) and India (5–7 per cent). If this is sustained, and literacy keeps rising, there is a very real prospect that people below the poverty line, who live on less than $1 a day, will decline to a more manageable 15–20 per cent of the population from 50 per cent today. This is the experience of the East Asian countries. India's poverty is a symbol of poverty on our planet, and if India can hope to make a significant dent, so can most of the Third World. China will get there probably ten to fifteen years earlier. Just ten years ago, this would have been unthinkable. Today, astonishing as it may seem, we can dare to contemplate this proposition.

The Indian state's biggest failure has been in building human capabilities. As a result, 40 per cent of Indians remain illiterate. We have now realized that primary education and primary health are the two most powerful ways to eradicate poverty. Simultaneously, there is a growing, impatient demand for these social goods from below. Indian literacy has already risen by ten percentage points in the past six and a half years, from 52 to 62 per cent. It is primarily because of grassroots pressures from below as social democracy has created upward mobility among the lower castes. The push for liberal economic reforms combined with investment in human capabilities will ensure that millions of Indians lift themselves from poverty within a generation.

India embraced democracy first and capitalism afterwards, and this has made all the difference. India became a full-fledged democracy in 1950, with universal suffrage and extensive human rights, but it was not until recently that it opened up to the free play of market forces. This curious historic inversion means that India's future will not be a creation of unbridled capitalism but shall evolve through a daily dialogue between the conservative forces of caste, religion, and the village, the leftist and Nehruvian socialist forces which dominated the intellectual life of the country for so long, and the new forces of global capitalism. These 'million negotiations of democracy', the plurality of interests, the contentious nature of the people, and the lack of discipline and teamwork imply

that the pace of economic reforms will be slow and incremental. It means that India will not grow as rapidly as the Asian tigers, nor wipe out poverty and ignorance as quickly.

The *Economist* has been trying, with some frustration, to paint stripes on India since 1991. It doesn't realize that India will never be a tiger. It is an elephant that has begun to lumber and move ahead. It will never have speed, but it will always have stamina. A Buddhist text says, 'The elephant is the wisest of all animals/the only one who remembers his former lives/and he remains motionless for long periods of time/meditating thereon.' The inversion between capitalism and democracy suggests that India might have a more stable, peaceful, and negotiated transition into the future than, say, China. It will also avoid some of the harmful side effects of an unprepared capitalist society, such as Russia. Although slower, India is more likely to preserve its way of life and its civilization of diversity, tolerance, and spirituality against the onslaught of the global culture. If it does, then it is, perhaps, a wise elephant.

PART ONE

Our Spring of Hope

(1942–65)

Some try to represent political economy as being a dry, cold abstract science, which has no warmth of feeling to spare on suffering humanity . . . This is far from the truth; on the contrary, political economy produces feelings so intense for the removal of these evils, that it will not permit us to rest satisfied . . . but impels us to . . . discover the true causes of this wretchedness, and the mode by which it may be removed . . .

—*James Wilson*

1

Ranting in English, Chanting in Sanskrit

> To everything there is a season and a time to every purpose under the heaven. A time to be born and a time to die . . .
>
> —*Book of Ecclesiastes* (3:1-8)

I can measure the passages of my life by the nation's milestones. When I was born, we were fighting to get the British out of India. By the time I went to school, we were free and we thought we would soon enter a new paradise. During my schooldays in the 1950s, Nehru set about building a proud new nation based on democracy, socialism, and secularism. When I went to work in the '60s I discovered that we had become economically enslaved and socialism was leading us to statism. By the time I got married and we had children, Indira Gandhi was creating dynastic rule and leading us into a ditch. When she declared the Emergency in the mid-'70s, we knew that paradise was lost. Just before I took early retirement, Narasimha Rao delivered us our economic freedom in the early '90s. It doesn't matter who will be ruling India when I die, because democracy has got entrenched and its institutions are best run

by modest men. Thanks to the reforms, we have glimpsed paradise again and are on our way to regain it. We have climbed to a 7 per cent economic growth rate, and if we grow at this rate for a few decades, and keep raising our literacy level, the nation will turn increasingly middle class and the degrading poverty of India will begin to vanish.

I was born soon after Mahatma Gandhi challenged the British by launching the Quit India movement in 1942, which led to Independence five years later. My birth also coincided with a second event, the Great Bengal Famine, in which three million people perished. Both these events would never be repeated, and have become remote in public memory. They were the last examples of what were commonplace happenings during my father's and grandfather's days. In a sense, the year of my birth brought down the curtain on an age.

The Quit India movement was born of frustration. For twenty years, Gandhi and the leaders of the nationalist movement had tried to negotiate with the British. It was a non-violent struggle, based on Gandhi's belief in satyagraha or 'truth force'. Because 'truth' was on his side, Gandhi believed that he would shame the rulers into giving us freedom. Twelve years earlier, on 11 March 1930, he had informed the British that he was going to violate the salt-tax laws and collect salt from the sea. On that day, in a single stroke, he aroused the whole of India. Fishermen began collecting salt; then the peasants were making salt; the housewives followed suit. Soon the whole country was breaking the law and the people began to court arrest. But how many could the police arrest? Thus, year in and year out, Gandhi provoked the rulers with civil disobedience and drove them to distraction. In the end, they just gave up and left. India won freedom without a single English casualty—and this happened in a world filled with Hitler's and Stalin's shadows. No wonder we felt that we were a nation created by saints.

I grew up in a middle-class home in Punjab in northwest India. Most of Punjab was arid, but over three generations the vision and toil of engineers like my father created a network of

canals that irrigated the land and made it a granary. The lower Chenab canal was one of the first to be built in the last quarter of the nineteenth century. With it came an orderly and planned town called Lyallpur, so named after the ruling lieutenant-governor of Punjab, Sir James Lyall, BA. It was to this town that my mother's ambitious father proudly moved in the early part of this century to start a law practice. I was born there a generation and a half later. In the middle of Lyallpur was a brick clock tower, where eight roads crossed and around which the town spread out in concentric circles. Our house was off one of these roads, called Kacheri Bazaar, on the way to the Company Bagh, whose gardens sprawled sumptuously over forty acres.

We were a professional, middle-class family, not particularly given to patriotic enthusiasms. We never thought much of Gandhi—he was merely our 'liberator with clean hands'. My uncle specialized in uncovering the latest scandal in our neighbourhood, and that always took precedence over politics. Famines, of course, were too unpleasant to be the subject of polite conversation. Nevertheless, the famine in Bengal did intrude into our complacent world. My grandfather's nephew, Sat Pal, decided one day to help in the relief work. He took a train from Lahore to Calcutta, and from there he went on to the Bengal countryside, where he experienced the trauma of the riots and deaths that took place. On his return, he told us that he did not understand the insanity of the situation. The supply of food had declined only marginally, but its distribution had failed completely. The only thing he could say for sure was that there was a human agency involved in a criminal and nasty form. He spoke vividly of a peasant who had fallen dead on a street in Calcutta—he spoke as though he knew him intimately. When it came to explanations, Sat Pal tended to see everything in class terms and the others would lose interest. Much to my grandfather's disappointment, Sat Pal had spurned a brilliant professional career and become a communist.

During the Great Bengal Famine entire villages ceased to exist. The tragedy of the Bengali people's suffering was equalled

only by the indifference of the British authorities. It was largely a man-made event, caused not by a decline in the food available but by the inadequacy of the response. The reports of the district officers of the province and clippings from the *Statesman* reveal the progress of the tragedy: 'Rangoon falls to Japan—rice imports cut off' (10 March 1942); 'Cyclone hits Bengal' (4 October 1942); 'Rice price doubles in Birbhum district' (6 November 1942); 'Wholesale price of rice in Calcutta is Rs 13 compared to Rs 7 a year ago' (11 December 1942); 'Hunger marches organised by communists' (28 December 1942); 'People having to go without food' (10 February 1943); 'Acute distress prevails' (26 March 1943); 'Paddy looting cases have become frequent' (28 March 1943); 'Major economic catastrophe in the making' (27 April 1943); 'Bands of people moving about in search of rice' (12 June 1943); 'Death in the streets' (12 June 1943); 'Town filled with thousands of beggars who are starving' (17 July 1943); 'Disposal of dead bodies . . . a problem' (27 September 1943).

Lord Wavell, the British viceroy, summed up the situation in 1944: 'The Bengal Famine was one of the greatest disasters that has befallen any people under British rule and damage to our reputation here . . . is incalculable.' The problem, it seems, was Winston Churchill's attitude. Mountbatten wrote in 1944 that Churchill was impossible on the topic of India and regarded sending food as 'appeasement of the Congress Party'. Churchill said, 'I hate Indians . . . They are a beastly people with a beastly religion.' Though food was available, it was sent to Holland but not to India. Wavell noted in his diary 'the very different attitude towards feeding a starving people in Europe'.

Churchill's advisers frustrated Wavell's efforts to secure grain for India. One of them, Lord Cherwell, felt that the famine was a 'figment of the Bengali imagination'. It escaped Churchill that India had given two million fighting men for Britain's war effort. Field Marshal Alan Brooke commented that Churchill 'seemed content to let India starve, while still wanting to use it as a base for military operations'. The British army generals did let in some food, but much of it was diverted to their troops.

Reports of famines were familiar news to my parents and their generation. Today, famines have vanished from our memory. When the monsoon failed in 1979 and again in 1987, few people noticed. It is not only because the green revolution has increased food supply in India. It is also because democracy and a vigorous press force politicians to act for the sake of their own survival, Nobel laureate Amartya Sen tells us. Nowadays, the government routinely carries three to four months' supply of foodgrains in the national warehouses and the public distribution system. In China, on the other hand, despite higher nutritional standards, more than twenty million people died from famines during Mao's experiments in the late 1950s (though, amazingly, the world did not know of these tragedies until the '80s). This happened partially because of the absence of democracy and an active free press. Sen's point is that merely having more food is not enough. What causes hunger is the inability of the poor to buy food. Hence, even if Wavell had succeeded in getting more food for Bengal from Churchill, he would not have saved the starving masses unless he had a plan to create purchasing power among the poor.

The year 1942 was a watershed. The Second World War was raging in Europe and had now spread to Asia. Following their devastating raid on Pearl Harbour, the Japanese had begun to advance on British colonies in South-East Asia. The tired nationalist movement in India had acquired a new vigour. There was an unstoppable momentum towards independence. The spectacular Japanese victories in the East had unnerved the British. The surrender of Singapore, in particular, had been a staggering blow to their prestige in India. It had also opened the Bay of Bengal to the Japanese navy. My family wondered if we should support the British in their war with the Japanese. They asked who were our real enemies—the British or the Japanese? Would the British really give up India? Would the English split the country before they left?

These questions were on the minds of many Indians in those days. Although our family was apolitical, dinnertime conversation would often veer around to politics. My grandfather

used to get impatient with people who did not realize that the Japanese posed a bigger threat. My uncle would retort that we were already under alien rule, and who was to say that one foreigner was better than another? My mother would add that we should be neutral in a conflict that did not concern us. My uncle confessed that he had secretly enjoyed Britain's discomfort in the East. He had applauded the successive fall of Hong Kong, the Philippines, then Malaya and Indo-China. He was amazed at the speed of the Japanese advance. It meant that the colonial empires were flimsy structures built on pillars of rotting clay.

The British sought Indian support to fight the Japanese, who were practically knocking at our eastern door. Gandhi asked for what we thought was reasonable—a commitment in principle to India's freedom after the war, and in return the Indian people would fight the Japanese. But Churchill was unwilling, saying 'I did not become the Prime Minister of England in order to preside over the liquidation of the British Empire.' Even President Roosevelt of the United States, who was a great champion of Indian independence, could not persuade him. From this frustrating deadlock was born the Quit India movement.

If we hated Winston Churchill, we loved Roosevelt for supporting us. In 1942, President Roosevelt sent a personal envoy, Averell Harriman, to liaise with Churchill, and he promptly began an affair with the attractive Pamela Churchill, the wife of Winston's son Randolph. The British establishment did not seem to mind the liaison, as it might help 'drag' America into the war. 'To have FDR's personal representative, the man charged with keeping Britain safe, sleeping with the Prime Minister's daughter-in-law was a wonderful stroke of luck,' said Lord Beaverbrook. But the establishment did resent Harriman's pressure for India's freedom. The disastrous collapse in the Far East had made Britain heavily dependent on Roosevelt, who was not amused by the irony of Churchill claiming to fight a war on behalf of freedom, yet making no concessions for freedom to the second largest country in the world.

In the end, Churchill had to resort to a lie to get Roosevelt off his back. He telegraphed Roosevelt under his famous code name, 'Former Naval Person', informing him that 'he had no wish to allow Indian Muslims to be governed by the Congress Caucus and Hindu priesthood when 75 per cent of the Indian soldiers were Muslim'. This was false—the truth was that less than 35 per cent of the Indian army was Muslim. At any rate, Roosevelt was unmoved. Churchill had to agree to dispatch a political mission—the Cripps Mission—to India a few days after the fall of Rangoon. It failed and Churchill was delighted. He said to FDR, 'I feel absolutely satisfied we have done our utmost.' However, Roosevelt did not think so. He knew that Churchill had stacked the deck against the mission. He telegraphed Churchill to try again, saying that Britain's unwillingness 'to concede to the Indians the right of self-government was at the root of failure'. Churchill was so furious that he released a 'string of cuss words, which lasted for two hours in the middle of the night'.

One of the intriguing 'what-ifs' of history is that if the Japanese had succeeded in overrunning India, we might have been tempted to follow the successful Japanese model of export-led economic development after Independence, much like the Asian tigers. At the very least, it might have been a foil to British Fabian thinking, which did us incalculable harm. One can now say with some conviction that Fabian socialism failed everywhere, and the Japanese model succeeded everywhere (notwithstanding East Asia's troubles a few years ago). The fact, of course, is that we also inherited a democracy from Britain. If it came to a trade-off between East Asian capitalism and liberal democracy, most Indians today would still opt for democracy. However, there need not have been a trade-off. If Nehru had not been mesmerized by the Soviet Union's economic success, or if Indira Gandhi had changed course when Korea and Taiwan did and opened our economy in the late 1960s, we might have lifted our growth rate and become an economic success without in the least bit compromising democracy.

Men like my grandfather and my father were typical of a new, professional middle class that emerged in the nineteenth century under British rule with the introduction of the English language and Western education. This class not only produced clerks for the East India Company but also lawyers, teachers, engineers, doctors, bureaucrats—all the new professions that were required to run a country. Since passing an exam was the only barrier to entering this class, its members came from various castes and backgrounds. Although opportunities were open to all, the upper castes were the first to seize them and hold on to them. Once they learned English, acquired an education, and cleared an exam, rewards and prestige were showered upon them. They became the new elite and closed ranks.

The rise of a new Westernized urban elite matched the decline of the landed gentry. The Mughal aristocracy was the first to be destroyed beginning in the late eighteenth century. Then came the gradual fall in the status of the regional Muslim and Hindu nobility. To be sure, local landlords, chieftains, and zamindars continued to hold sway, but men of new learning like my grandfather and father threatened their social position. Equally, this new middle class endangered the intellectual monopoly of the Brahmins. But the Brahmins were clever. With their traditional agility, many of them took to English education, passed exams, and became part of the new middle class. Though English administrators spoke contemptuously of natives talking the language of their masters and aping the manners of their betters, as time passed and one generation succeeded another, the apparent contradiction of a Brahmin talking about equality and fraternity also became reconciled. They could now rant in English and chant in Sanskrit.

With the Congress outlawed after the Quit India movement, its leaders in jail, its funds seized and its organization decimated, Jinnah and the Muslim League saw the political vacuum and seized this opportunity to create a campaign of fear and emotion among the Muslim masses. Without the sane voice of Gandhi, who passionately spoke for one India, Muslims and Hindus drifted rapidly apart. Throughout my early childhood there was growing intolerance and increasing incidents of violence between the two communities.

I was four years old when, one day, my aunt pulled me away from the window and closed the shutters, because a mob in Lyallpur had begun to throw stones at our Hindu neighbour's house. By the end of the war, Jinnah's politics of divisiveness had succeeded and the Muslim League's demand for Pakistan had become real. Gandhi was to pay a heavy price for Quit India. Unwittingly, he had paved the way for the partition of India and the death of more than half a million people in one of the bloodiest atrocities of the twentieth century. To many, the split was inevitable. The deeper reasons were ancient. There is no use blaming anyone for what happened. The horrendous massacres of 1947 brought to the surface the tragic history of the relations between the Hindus and Muslims ever since the thirteenth century.

Western education provided the stimulus for the most dramatic change in the minds of Indians in a thousand years. Alberuni, the Muslim traveller, who came to India around AD 1000 in search of India's legendary philosophical and mathematical knowledge, remarked that Indians were 'know-it-alls'. They kept themselves aloof from the outside world, he said, and were ignorant of the arts and sciences of the West. English education changed all that in a couple of generations. Indians embraced Western knowledge with vigour. Because of their Brahminical heritage, they showed a marked preference for theoretical over practical learning. Unlike the Japanese, for example, they were more attracted to the pure sciences than to technology. As in Alberuni's time, Indians continue to suffer from intellectual arrogance.

To my grandfather the English language was a treasured possession. He prided himself on its mastery. I was confused by his strange attachment to a foreign language, but I now realize that it was his window on the world. My uncle used to enjoy pointing out the rich irony of the British teaching us English. It introduced Indian minds to liberal ideas and the

ideals of the French Revolution while the British Empire was practising the opposite through colonial rule. Schools and colleges taught liberty and equality, while the rulers practised subjugation and inequality. After college, the same students joined the nationalist movement. By introducing English in India, the British dug their own graves. It is ironic that some state governments after Independence have done everything possible to make Indians forget English. Yet more and more Indians speak and write English today with confidence, freely mixing it with Indian words as though it were their own language.

By the time that my father went to Roorkee in 1931 there was a growing middle class that had gone through the same education system across India and had attained a general unity of vision. It had a liberal, humanistic outlook which was tolerant of ambiguities and shy of certainties. It shared a community of thought, feeling, and ideas, and this partly built up a sense of Indian nationality. Freedom was its first objective. It had produced a reasonably competent nationalist leadership who wanted to socially transform India and wipe away poverty and illiteracy. Mahatma Gandhi had said on many occasions that freedom would have no meaning unless it delivered the three fundamentals—bread, clothes, and shelter. How to achieve this was not as clear.

There were two competing visions. Mahatma Gandhi had a vision of self-reliant villages, with a reinvigorated agriculture and craft production. He opposed modern, urban industry because it dehumanized man. Jawaharlal Nehru had a modern, scientific mind, and he was much impressed by the economic gains of the Soviet revolution; but he was also committed to democracy. He had a vision of democratic socialism with the state leading the process of industrialization. He spurned capitalism because it exploited and it created inequalities. Both Gandhi's and Nehru's dreams were flawed, and we spent a long time chasing after them. Gandhi distrusted technology but not businessmen. Nehru distrusted businessmen but not technology. Instead of sorting out the contradictions, we mixed

the two up. We have had to deal with holy cows: small companies are better than big ones (Gandhi); public enterprises are better than private ones (Nehru); local companies are better than foreign ones (both). They so mesmerized us that the succeeding generation, whose job was to jettison these foolish ideas, failed to do so and did us incalculable harm.

Six months after I was born, the government transferred my father to a canal colony in the wilds of Hissar district in east Punjab. He was asked to supervise the maintenance of an irrigation canal. On the way, they stopped at his guru's ashram at Beas, so that their child could have the guru's blessings. My father explained to my mother that a true guru's eyes had the power to protect: his glance, alighting on the child, would give the boy an auspicious start in life. At the ashram, he placed his child at the guru's feet and requested him to give his son a name. 'Since you have put him at my feet, let us call him Guru Charan Das, the servant of the guru's feet. It will remind him to live his life with humility,' said the guru with a smile. He added, 'It is an appropriate name, don't you think?' And he laughed at his own joke. The first two parts of my name became gradually condensed, but it did nothing to make me humble or spiritual.

Religion was closely interwoven in our lives. Depending on our persuasion, we either went to a temple, a mosque, or a gurdwara, or attended discourses of holy men. It was common to speak of truth, illusion, and the meaning of human life. People were not ashamed to intersperse their conversations with their frustration with the human situation, or truisms on the inevitability of death. They regarded man as a microcosm of the divine. 'God is in man and man is in God' was the way people talked about it. Man's mind and his selfish nature were the cause of his problems, making him feel that he was separate from God. Everyone believed in karma—that actions mattered and determined what sorts of lives we would lead in future births; equally, our lives today were a result of our actions in past births. The aim of life was to achieve unity with God. Thus, day-to-day conversation had a philosophical edge to it.

As a sub-divisional officer, my father was an important official of the British Raj. We lived in a brick bungalow in the Public Works Department style—whitewashed inside, with a flat roof and a wide veranda—and the canal flowing at the back. My father's mission was to maintain the canal. He made sure that water flowed efficiently through the main canal as well as the smaller distribution channels which watered the farmers' fields. He also had to provide the water fairly to all the farmers. This was difficult at times because some farmer would invariably divert his neighbour's water to his own field, and this would lead to quarrels, fights, and even murder. In such a situation, my father often became a judge.

My father provided water for the crops, and the farmers overwhelmed him with gifts from their fields. He returned them, however, because he knew that they were a bribe. So as not to hurt the feelings of the giver, he would take one piece of fruit or vegetable from a whole basket or a glass of milk from a bucketful and return the rest. The villagers were surprised at this, for some of his predecessors had not only accepted gifts but had not hesitated in asking for cows and horses.

Nine months later, the government promoted my father to a 'desk job' in the irrigation department at the district headquarters at Rohtak. Whereas he had been a 'big sahib' in the canal colony, here he was a 'small sahib' on the lowest rung of the district officialdom. At the top of the ladder was the collector, followed by the district heads of police, medical services, railways, forestry, irrigation, and other functions. Some of these officials were English, although the Indianization of the services had advanced quite far by 1943. Whereas his colleagues were envious that he had an administrative job, my father missed working with his hands on the canal. Years later, he told me that he found it strange that Indian engineers always preferred solving conceptual design problems rather than working with machines.

My father seemed to lead two separate lives, neatly divided into two compartments. During the day, at work, he wore Western clothes, spoke English, and followed the rational, individualistic life of an official of the British Raj. In the evening he wore a loose-fitting kurta, spoke Punjabi, ate Indian food, listened to Indian music and meditated like a good Hindu. Years later, Prakash Tandon, the former CEO of Hindustan Lever and author of *Punjabi Century*, introduced me to the expression 'cultural commuter', which as I think about it, fitted my father and his generation quite well. However, it does not quite capture the price they must have paid and the disorientation and alienation that they must have experienced.

A visit from my father's big boss, the English superintending engineer (SE), was a major occasion. The entire staff of the local irrigation department assembled at the canal rest house to 'pay their respects' and garland the SE with bright marigolds. My mother found this display embarrassing, 'after all, the man was here on official business'. However, this was how it had been done for two generations. The SE's staff, a dozen-strong, arrived in advance to see to his comforts: two clerks, two orderlies, two guards, two bearers to serve him food, a cook, a dhobi to wash his clothes, a hamal to sweep the floors, all under the supervision of a khidmatgar. It was a brilliant spectacle, recounted my mother, to see them lined up beside the chrysanthemums, in their gleaming white uniforms, with green bands on their turbans and green cummerbunds.

After eighteen months, we were again transferred, this time to Lahore. My mother was thrilled to be finally 'going to civilization', to the cosmopolitan and cultured city where she had gone to college. However, there was a severe shortage of housing, and they decided that it was best for my mother and me to go to Lyallpur until my father found a proper house. The days passed into months, and he did not succeed in finding a house in Lahore. I was now four years old. After the winter came the unbearable hot weather, and finally to everyone's relief came the rains in early July. One late afternoon in August 1946, I was in my mother's dressing room, watching her comb her hair. My mother was sitting at a heavy teak dressing table.There were sounds of footsteps. They were quick and urgent, up the small staircase. My grandfather burst in. In an

excited voice, he said that the British were quitting India. Mountbatten had been appointed the last viceroy to liquidate the empire. 'I didn't think I would live to see the day. The British Raj is finally come to an end!' he said. My mother nervously dropped the bottle of coconut oil. She jumped with joy and hugged me. 'My grandson is going to grow up in a free country,' said my grandfather.

Although Indians gloss over it, the British Raj was the most important event in the making of modern India—for better and for worse. Britain gave us democracy, the rule of law, an independent judiciary, and a free press. It built railways, canals, and harbours, but it could not bring about an industrial revolution. It could not raise economic growth or lift the people out of poverty. It could not avert famines. The truth is that the Raj was economically incompetent. It just did not know how to 'develop' a country. Had it known it, Britain could have gained much from having a larger market for its manufactures. It introduced modern education and helped create a small middle class, but it did not educate the mass of the people. This was its other failure and linked to the first, for development is not possible without mass literacy.

The British gave us a hundred years of peace—the Pax Britannica—but they also consciously pursued a divide and rule policy which made Hindus and Muslims conscious of their separate identities. This led to a tragic division of the country. Had India remained united, billions could have been saved in defence expenditures and invested instead in improving the lives of ordinary people in both countries. Whether an undivided India could have survived the Muslim-Hindu animosity is another counter-factual of history.

The Raj gave us modern values and institutions, but it did not interfere with our ancient traditions and our religion. India has therefore preserved its spiritual heritage and the old way of life continues. Many Indians despair over the divisiveness of caste and would prefer to wish it away. However, the hold of the Indian way of life is also a bulwark against the onslaught of the global culture. The British gave us the English language,

which allowed us to converse with our compatriots in a country with sixteen official languages. However, English also divided us into two nations—the 10 per cent elite who learned English and shut out the 90 per cent who did not. Knowing English today, though, gives Indians a competitive advantage in the global economy and is an important factor in our nascent success in the information economy.

The British were different from our other invaders. They did not merge with us and remained aloof to the end. This shook our self-confidence. In school we had learned that the Indian subcontinent was a triangle with the Himalayas, the Arabian Sea, and the Bay of Bengal as its sides. The Himalayas ran from east to west and cut off the cold winds from the north. This allowed agriculture to prosper and created wealth, but it also attracted barbarian invaders from the north. It gave us a warm climate so that no one who came wanted to leave. First came the Aryans, then the Turks, the Afghans, and the Mughals. They came, they stayed, and they merged and became Indian. To accommodate them we merely created a new subcaste each time and they became part of our diversity. The British did not. But they are gone now and our confidence is restored, especially among the young. There may be a value in our infuriating diversity today. Because we have always learned to live with pluralism, it is possible that we might be better prepared to negotiate the diversity of the global economy.

2

Smells of the Bazaar

> The principle of competition is, as Hesiod pointed out long ago, built in the very roots of the world; there is something in the nature of things that calls for a real victory and real defeat.
>
> —*Irving Babbit*

Like many Indians, our family did not accord a high place to the making of money. Thus, I grew up with a low opinion of commerce and merchants. Partly it was the prejudice of caste. Belonging to the Arora subcaste, we regarded ourselves as Kshatriyas, superior to the trading castes. Aroras and Khatris were the main Hindu castes of urban Punjab. Because of our administrative ability, we had been functionaries at princely courts. Despite our low opinion of commerce, we were not above moneylending. When the British came in the mid-nineteenth century to the Punjab, we were among the first to embrace the Western learning and the modern professions. Although Brahmins were superior to us in the caste hierarchy, they lost their social position because they were slow to learn English and confined themselves to Sanskrit learning and religious duties in the temple.

As a child, I remember that my grandmother used to

admonish our grocer for manipulating his weighing scale. It was the same with our family jeweller, but with him she did it with more finesse. Later, my mother used to scold me for wasting my pocket money on 'adulterated' ice cream. Each commercial transaction, it seems, was a challenge in our lives. It was always a case of *us*—educated, honest, taxpaying citizens—versus *them*—tax-dodging, street-smart traders.

The treachery of the English East India Company and Omichand, the banker of Calcutta, reinforced our ancient prejudice against merchants. The East India Company came to India at the end of the sixteenth century to plunder, but soon discovered that there was more money to be made in trade. With the decline of the Mughal empire in the early eighteenth century, autonomous kingdoms had begun to replace the dying Mughal authority. One of these was Bengal, whose young nawab, Siraj-ud-Dowlah, came into conflict in 1757 with the ambitions of Robert Clive and the East India Company. By now the English had set up the trading post of Calcutta, and it attracted the most enterprising Indian merchants, especially Marwaris. The most powerful among these was the banking house of Jagat Seth, who had played a part in installing the previous nawab.

Clive smelled an opportunity in this uncertain political climate where merchants could be kingmakers. The nawab had attacked Calcutta the previous year and Clive wanted to dethrone him and replace him with his pliable uncle by marriage, Mir Jafar, who was commander of the nawab's forces and who had promised a fortune to the British in return for his elevation. The third member of the conspiracy was Omichand, a banker close to Jagat Seth and intermediary between the nawab and the company. While Clive plotted a surprise attack, Omichand was to gull and lull the nawab, and Mir Jafar to ensure that the nawab's troops remained immobile. The battle took place on 23 June 1757 in Plassey, a village 145 kilometres north of Calcutta. Only 12,000 of the nawab's 50,000 troops engaged in the battle and those under Mir Jafar stood still on the field and offered no resistance. In the end, the nawab lost 5,000 men,

the British eighteen, and the nawab fled the field. The British had won their most decisive battle in India and changed its history. They had learned how to conquer India. Their share of the loot was £2.3 million (a billion in today's dollars) and Clive's share £230,000 (140 million in today's dollars.) More valuable to the British was the title they acquired to a large chunk of land around Calcutta, which later expanded to the whole of Bengal and then the entire country.

Just before the battle, Omichand hinted to Clive that he wanted a bigger share of the loot. Otherwise, he would squeal. He wanted £300,000 ($150 million in today's dollars) and he wanted it written into the secret treaty with Mir Jafar. Clive was livid and called him 'the greatest villain upon the earth', but he agreed because he had no choice—the conspiracy would else have collapsed. The historian Macaulay says that Omichand 'possessed great influence with his own race, and had in large measure the Hindoo talents, quick observation, tact, dexterity, perseverance, and the Hindoo vices, servility, greediness, and treachery'. In the end, Clive was even more deceitful—he double-crossed the blackmailer. He drew up two treaties—the real one on white paper and a false one on red paper that he showed to Omichand. When the merchant came to the winner's get-together at Jagat Seth's house, he discovered the duplicity. The shrewd merchant never recovered and died after a few months. Clive went on to become Lord Clive and returned laden with jewels to England to a hero's welcome. 'No Englishman who started with nothing has ever, in any line of life, created such a fortune at the early age of thirty-four,' wrote Macaulay, but he also condemned Clive's deceit, for he had committed 'not merely a crime but a blunder', because 'nations must not be perceived to engage in duplicity'.

Every Indian schoolchild knows the perfidious story of how Bengal was lost at Plassey. Is it surprising that we are suspicious of merchants and foreign companies? In contrast to these greedy and deceitful villains, we believed that saints—Gandhi and Nehru—had created our new nation in 1947. It seemed possible to believe then that India would be great because she was good.

The Indian defeat at Plassey in 1757 is similar in some respects to the Chinese defeat in the Opium War a hundred years later. They were both low-key English victories over ancient and proud civilizations. Both were mild, localized affairs, unimportant to contemporary observers. Yet both started a chain reaction of unpredictable events and opened the ancient lands to a long period of foreign subjugation, bloody conflict, and the entry of Western ideas and technology.

A small band of greedy English trader-adventurers showed to the world the impotence of two enfeebled civilizations, and how their immense wealth that could be looted with ease. They proved that the natives were passive and divided, resigned to quick defeat. This humiliation of two great peoples, Indian and Chinese, left a suspiciousness of traders and foreigners and a scar of xenophobia. This explains, in part, India's anti-business attitudes, the fear of a 'foreign hand' and its absurd attachment to swadeshi. In China, it paved the way for a communist revolution and the persistence of an anti-liberal, distrustful Chinese establishment.

We may have looked down on banias, but we loved money and the bazaar. The most famous bazaar in Punjab was Lahore's Anarkali, and to shop in it was the fondest wish of every Punjabi. People came from all over the Northwest to taste its gaiety. All of Anarkali's women, people used to say, were beautiful, and all its men handsome. And if something could not be had in Anarkali, it was probably not worth having. For this and other reasons, they called it 'a paradise on earth'.

For my grandfather, a visit to Lahore was not complete without a few hours in Anarkali. One day in 1929, he remembered, there was even more excitement than usual. He was returning after briefing a barrister at the high court, and he entered the bazaar from the Lahori Gate-end. Passing by the splendid row of flower vendors on the left and the mountain of fruit overflowing in an amphitheatre on the right, he stopped at the Kesari Aerated Water Co. He ordered, as he always did, a tall, refreshing glass of fresh lime juice. In his younger days he used to stop at Bhagwan Singh's for lassi, but now he found

it too heavy for his liking.

Suddenly there was a buzz in the bazaar and a cry went out as a procession entered Lahori Gate. Windows sprang open, balconies filled up, and people began to shower flowers on the fine-looking Jawaharlal Nehru, who was leading the procession on a white horse. Nehru had become the new president of the Congress in the historic Lahore session of 1929. The procession stopped at Dhani Ram Bhalla's shoestore, where Nehru was greeted with a garland of currency notes—the Anarkali merchants' donation to the freedom movement. From above people yelled 'Jawaharlal Nehru zindabad, Hindustan ke be-taj badshah, zindabad!' Even my grandfather, who had a distaste for street politics, was touched by the spontaneous affection that Anarkali showered upon its future ruler.

In the confusion, however, someone in the jostling crowd collided with my grandfather and he fell down. It was one of the processionists, who turned around and immediately gave my grandfather a helping hand. The stranger apologized profusely. With great courtesy, he offered to take him to a hospital. But my grandfather was not hurt. The stranger had an impressive face, recalled my grandfather. He was slim, dressed in a fresh dhoti and a well-pressed silk kurta and a black, sleeveless Jawahar jacket. 'He didn't know me, but I knew that it was Ghanshyamdas Birla, the Marwari magnate, and Gandhi's confidant. Even though he was one of the richest men in India, he was courteous and he spoke very softly.' G.D. Birla invited my grandfather to join him for tea after the procession. My grandfather readily agreed, and the two drove to the comfortable home of another merchant. Amidst talk about Gandhi, Congress politics, and business, he listened with particular fascination to GD's account of his family. The Birlas, he learned, came from a little village called Pilani, buried deep in the sands of Rajasthan, 650 kilometres due south from where we lived. They belonged to the commercial, Maheshwari subcaste. GD's grandfather, Shiv Narain, had spurned financial security and declined a comfortable position as accountant to the wealthy Marwari bankers, the Ghaneriwalas, in Hyderabad.

'Marwaris are uncomfortable working for others,' said GD. But Pilani had only 3000 people and there was little challenge for an ambitious person. Shiv Narain decided to go to Bombay. He rode a camel for 700 kilometres, taking twenty days to reach Ahmedabad. From there, he caught a train to Bombay, where he stayed until he had amassed a fortune trading in opium, silver, and cotton.

Shiv Narain's arrival in Bombay coincided with an event 12,000 kilometres away, on the other side of the globe, and it transformed his destiny. The American South was infamous for slavery, but it was famous for growing fine, long-staple cotton, which it supplied to the textile mills of Britain. The mills converted it to cloth and sold it around the world. Overnight, the American Civil War cut this supply chain. As the supply of raw cotton dried up, prices began to skyrocket. Traders in Bombay smelled an opportunity. The enterprising ones took off for the villages and convinced the farmers of western India to switch over to the particular long variety, suitable for the English mills. Soon the Indian farmers had converted, and with prices booming a number of traders made huge fortunes in the 1860s supplying the cotton to Lancashire. Shiv Narain Birla was one of them. Some of these fortunes were reinvested in the first textile mills in Bombay and Ahmedabad in the 1870s and '80s.

But Shiv Narain, after seven years in Bombay, returned to Pilani a rich man. There, surrounded by the sand dunes and shrub of the Aravalli hills, he built a grand haveli for his family, beside a magnificent banyan tree. He had the exterior walls painted in ochre, with riotous frescoes of parading elephants and camels and charging horses, similar in style to the Bengal Company paintings. In the inner and outer whitewashed courtyards, under elaborately decorated balconies and brackets, he had artists paint scenes of merchant activity, as well as of military action and local flora and fauna. Befitting their new stature, the Birlas also acquired a luxurious bullock-chariot.

GD was born in this house and left in the care of female relatives. The men in the family were continuously away in

Bombay and Calcutta, making their separate fortunes and expanding the family's wealth. GD went to a local school where there were no books and classes were held in the open air. One day the teacher disappeared without warning, taking off, it was rumoured, with a local widow, and the school closed down. At nine, he was sent off to school in Calcutta, and soon after that to Bombay to learn bookkeeping and business skills, and a private tutor was engaged to improve his English. At fourteen, he returned to Pilani to get married, and a year later he had a son.

Because of the plague in Bombay, the family shifted to Calcutta at the turn of the century. They began trading in jute and opium, initially under the aegis of the enormously influential Marwari 'great firm' of Tarachand Ghanshyamdas. A few years later they set up their own firm, specializing in opium futures. Opium futures fluctuated widely because of the changing value of silver—the commodity with which China paid for its opium—as well as the Chinese government's futile attempts to ban the import of the narcotic. The instability of the opium market offered great potential for speculative coups and the Birlas made many successful ones.

At the age of sixteen, GD set himself up in Calcutta as an independent trader in jute, with his own company. Thus began his first contacts with Englishmen, who were his customers. During his association with them he began to see their superiority in business methods and their organizing capacity. But their racial arrogance bothered him. He was not allowed to use the lift to go up to their offices, nor their benches while waiting to see them. He smarted under these insults and it created within him a political interest.

With the coming of the First World War, the demand for jute sacks soared and GD made a handsome fortune. So did the others in his family, and the Birla fortune quadrupled in the war years to Rs 80 lakh. After the war GD wanted to invest his wartime profits in a jute factory in Calcutta, making him the first Birla to enter industry. But it was not easy to break into the stronghold of a Scottish monopoly that had governed the

jute industry since its beginning. Every time GD bought some land to start the mill, the Scots (Andrew Yule, in particular) would buy land all around it and deny him access to the road.

But GD was not deterred. He knew that his future lay in manufacturing. One night he quietly bought land further south, towards Budge-Budge, along a curve on the Hooghly river. Having got the land, he needed credit. The Imperial Bank, under the influence of the monopoly, refused him a loan for the machinery. Eventually it relented, but it charged him an extremely high rate of interest compared to what it charged British firms. Transport charges too, especially for river traffic, were raised steeply, in a further attempt to stop Indian intrusion into what had been a British preserve.

Next, the jute monopolists got to the machine makers in Britain and persuaded them to quote prohibitively high prices for the machines. As a result, GD's costs ballooned and his project became unviable. In despair, he almost gave up. He agreed to sell the factory to Andrew Yule, his largest competitor. When he walked into the Andrew Yule offices to conclude the deal, the Scottish manager chided him for having had the audacity to start a jute mill. Stung, GD instantly withdrew his offer. He resolved that come what may, he would break the jute monopoly.

And he succeeded beyond everyone's expectations. After that, he was not to be stopped. Two years later GD set up a spanking new textile mill in Gwalior (in partnership with the maharaja of Gwalior) which eventually became one of the largest composite textile mills in the country. The following year he turned the tables on Andrew Yule. The Scottish company had suffered in the post-war depression and it needed desperately to raise cash to pay its debts. GD stepped forward and he proudly bought Andrew Yule's cotton mill. In 1928 he took over a confectionery company. As soon as tariff protection was extended to sugar the Birlas set up four sugar plants between 1931 and 1933. He also went into publishing, and in a modest way into soaps and chemicals. All his investments prospered, despite the depression, and in the mid-'30s he

started an insurance company as also a large paper-making company called Orient Paper.

The Second World War provided another major stimulus to growth and Birla assets grew sixfold during the war. When my grandfather announced to my mother that the British had decided to leave India, Birla assets had grown to Rs 25 crore and they were among the top two industrial houses in India.

More significantly, GD became the largest supporter of the Congress freedom movement, and a close friend of Mahatma Gandhi. They wrote to each other almost daily—their correspondence running into four volumes, each of nearly 500 pages, was published under the title, *Bapu, A Unique Association*. GD's support to Gandhi's movement was so generous that it threatened to create a rift between his brothers. It also got him into trouble with the British. The viceroy, Lord Linlithgow, sent a 'most secret and personal' letter to all provincial governors at the height of the Quit India movement in November 1942 that 'every possible step should be taken to trace and bring home to those concerned the part played by "Big Business" in the recent disturbance . . . [especially] by the Birla Brothers'.

It was as a Congress financier that G.D. Birla had come to Lahore when my grandfather chanced upon him. Their meeting left a deep impression on my grandfather. Until that day he had not given much thought to merchants. He had certainly never believed that merchants and commerce were the lifeblood of an economy. Nor was his caste prejudice against commerce as strong as Jawaharlal Nehru's, who expressed his bias succinctly in his autobiography: 'Right through history the old Indian ideal did not glorify political and military triumph, and it looked down upon money and the professional money-making class. Today (the older culture) is fighting against a new and all-powerful opposition from the bania (Vaishya) civilization of the capitalist West.'

In Nehru's case this prejudice was reinforced by his education at Harrow and Cambridge, where he acquired the English upper-class bias against trade and learned socialism from the Fabians. When he came to power in 1947, Nehru

institutionalized the prejudice. Lord Wavell, viceroy in the '40s, shared the bias against Marwaris. Nevertheless, he recognized G.D. Birla's uniqueness and he paid him a huge compliment by preferring him to J.R.D. Tata as Queen Mary's companion for lunch in Bombay, even though Tata was the young head of the largest and most respected business family in India. Wavell wrote:

> I think Queen Mary would find G.D. Birla better company than J.R.D. Tata if she wishes to invite one of them to lunch. Tata is a pleasant enough fellow to meet, but I have not found him communicative, and as a casual acquaintance he is much the same as any other wealthy young man who has had a conventional type of education. Birla has plenty to say, and whatever one may think of Marwari businessmen and their ways, he is well worth talking to. I think Queen Mary would have a very dull lunch with Tata and quite an interesting one with Birla.

Mahatma Gandhi, a bania himself, had no qualms about accepting money from Birla or other businessmen. Nor was he contemptuous of commerce like Nehru. He came from Gujarat, which had many ports and vigorous commerce, and where the merchant was held in esteem. Gandhi held the belief that a businessman's wealth was not his own but held in trust for the rest of society. Although he did not persuade anyone of his naïve faith in trusteeship, he did succeed in transforming the freedom movement from an upper-caste debating society into a genuine, broad-based people's movement, challenging our middle-class conception of independence as 'English rule without Englishmen'. His discovery of the masses had far-reaching influence on the orientation of the intelligentsia.

But Gandhi could not change our suspicion of traders and commerce. The Japanese, on the other hand, who suspect foreigners even more than we do, did succeed in getting over their mistrust of businessmen.

The Japanese responded to the Western challenge in a vastly different way. After their humiliation by Perry in 1854,

they recognized that their ancient civilization was like a paper-thin shoji door, too flimsy to defend them against the superior technology of the West. Instead of tiresomely proclaiming their own superior past, they humbly went to school during the Meiji period, in the second half of the nineteenth century. They vigorously began to acquire Western learning, skills, and ways. They were not ashamed to throw out what did not work and adopt what did. They took to Western dress, laws, methods, and technology. Unlike the ambivalent Indians and Chinese, they became so good at copying that they eventually beat the West at its own game.

The Europeans had brought to India, China, and Japan a virile new culture based on science, modern organization, and the ideas of the Enlightenment. The Japanese responded quickly and with purpose. The Meiji state sponsored a full-scale reform of the economy and society, and the people responded with discipline and teamwork. They were so successful that by 1905 they had defeated the Russians. The Chinese embarked on a more fitful and tragic path, first under the Koumintang and then the communists, and tens of millions lost their lives in three huge convulsions between 1949 and 1974. But after Deng's economic reforms in 1979 China has blazed ahead at a blistering pace and now aspires to world-power status. In India, it took three generations of freedom fighters, liberals, reformers, and anti-colonialists to create national consciousness and pride. Eventually, a non-violent freedom movement under Mahatma Gandhi's leadership won freedom in 1947, with almost no bloodshed.

After Independence, democracy took root in India and gradually the masses acquired a stake in the system, periodically electing representatives even from the lowest castes. But the rulers shackled the energies of the people by adopting a socialist economic path that led us to a dead end. Indians won their economic independence only after 1991. Thus, India embraced democracy before capitalism. This makes its journey to modernity unique, and this singular reversal explains a great deal about Indian society. Among the big three in Asia, Japan won first prize in the economic race, China seems to have taken second place, and India came in last. The Japanese are probably three to four generations ahead of India. The Chinese, who were at a comparable level of development in the mid-1970s, are now a generation ahead. Why did India fail? It has little to do with our colonial past. Neither is it a problem of national character. Nor is it the fault of our 'soft democracy'. The chief reason for non-performance is our wrong 'mixed economy' model, which allowed our obstructive bureaucracy to kill our industrial revolution at birth.

3

The Train to Nowhere

They saw a Dream of Loveliness descending from the train.

—Charles Leland

At midnight on 14 August 1947 the British Raj came to an end. On the same day Pakistan was born, carved out of Punjab and Bengal. Sir Cyril Radcliffe did the actual carving in five weeks and the demarcation on the map came to be known as the Radcliffe Boundary Award. The partition led to an unprecedented transfer of population and rendered ten million homeless. An estimated twenty million Hindus moved out of west Punjab and east Bengal and eighteen million Muslims went to Pakistan. As a part of this mass movement over half a million people lost their lives; there were 22,000 reported cases of rape and kidnapping of women; 220,000 people were declared missing.

My family had also become refugees. We found asylum at my father's guru's ashram, which turned out to be some sixty kilometres within the Indian border according to Mr Radcliffe's pencilled line. There we heard Nehru's historic address to the new nation.

> Long years ago we made a tryst with destiny, and now the time comes when we shall redeem our pledge . . . At the stroke of the midnight hour, while the world sleeps, India will awake to life and freedom. A moment comes, which comes but rarely in history, when we step out from the old to the new, when an age ends, and when the soul of a nation, long suppressed, finds utterance . . .

Despite the suffering and the uncertainty about our future, we were filled with emotion as we listened to Nehru's words. We heard the national anthem of the new nation for the first time. Few recognized it. My father was the first to stand up. Then one by one the other listeners got up, until everyone was standing at attention. When the reference came to 'Punjab' in the song, the refugees looked at each other, helplessness in their eyes. Despite our travails, we realized our good fortune in having witnessed the birth of our free nation. In what became the most important speech delivered in modern India, Nehru went on to say, 'The achievement we celebrate today, is but a step, an opening of opportunity, to the great triumphs and achievements that await us.' He reminded his people that the task ahead included 'the ending of poverty and ignorance and disease and inequality of opportunity'.

It is with this task that this book is concerned. Nehru achieved much in the seventeen years that he went on to rule, but he failed in this task. After fifty years the failure is staggering: four out of ten Indians are illiterate; half are miserably poor, earning less than a dollar a day; one-third of the people do not have access to safe drinking water; only a sixth of the villages have modern medical facilities. Even more devastating, the system that Nehru created and his daughter perfected actually suppressed growth. The irony is that this system, which was made in the name of the poor, in the end did very little for them. As a result, 60 per cent of the budgets of the Indian governments at all levels go to pay civil servant's salaries and 70 per cent of the twenty-seven million Indian workers employed in the organized sector belong to inefficient

state-owned enterprises which are bleeding the country. If a small portion of this money had been spent wisely on education and health, it would have delivered far greater benefits to the average Indian.

This is not to say that there hasn't been progress. Famines have been eliminated, and the country sits routinely on a mountain of grain reserves each year. Life expectancy has doubled from thirty to sixty-four years; literacy has risen from 17 per cent to 62 per cent. Infant mortality has been halved. The stagnant economy, which grew by 1 per cent per year in the first half of the century, has grown by 4.4 per cent a year in the second half of the century. It grew 3.5 per cent annually between 1950 and 1975; it accelerated in the '80s to 5.6 per cent; and after the reforms it touched 7.5 per cent for three years in a row in the mid-'90s.

At the guru's ashram, my father learned that he had been transferred to Simla, where the government shifted temporarily after the loss of Lahore to Pakistan. We took a train from Jullunder to Kalka, where we changed to the miniature train for Simla. From the window of our train, we feasted on the snow-tipped crests of the world's highest mountains. The journey through the lower Himalayas to Simla in August 1947 refreshed our exhausted emotions and marked the decisive break with our bloody past. The stench of death was left far behind. On each bend of the winding journey, there were green slopes with tiers of neatly cultivated terraces. Towards the south, we could see the Ambala plains far below, and the Kasauli hills in the foreground. Higher up, belts of pine, fir, and deodar punctuated the terraces. Masses of rhododendrons clothed the slopes. Northwards, rose the confused Himalayan mountain chains, range after snowy range.

The train stopped at Barog, where a white car on rails went speeding by. 'The rail car,' explained the Anglo-Indian ticket collector, 'carries the rich and the busy, who don't carry luggage and who want to reach Simla in a hurry. It used to be only the white sahibs who travelled in it. Since Independence, everyone is on it. Amazing, how quickly the brown sahibs have slid into the shoes of the departing masters!' At Shogi, we glimpsed the first wondrous vision of Simla. From afar, it looked like a mythical, green-carpeted garden dotted with red-roofed houses. Our excitement mounted. We passed Jutogh, crossed Summer Hill, turned into tunnel number 103, and finally reached Simla's Victorian railway station. It was the best train journey of our life.

The Indian Railways, one of the world's greatest railways systems, was built soon after the British crown took over the running of India from the East India Company. It was the largest single injection of British capital into India's economy and the network went on to become the third largest in the world. Yet, this massive construction was not enough to modernize and lift the Indian economy. India alone among the great railway countries remained unindustrialized. In the other railway powers—the United States, Russia, and Germany—the railway had been a dynamo of the industrial revolution. It had no such effect in India, even though the country's network by 1947 was more than 50,000 miles long, employing more than a million men, with 9000 locomotives, 225,000 freight cars, and more than 16,000 passenger coaches.

Soon after Independence, my cousin, Jeet Varma, got into the Indian Railways. We were all proud. At a time when jobs were scarce he had gone and landed a coveted job in the railways entirely on his own initiative. Soon after the turmoil of Partition, he had joined an engineering college at Kashmere Gate in Delhi, where he heard that the Railways was expanding and needed engineers. He passed an exam, cleared the interview, and went off to Jamalpur for a six-year training programme. Jeet was not impressed with either the colonial setting or the training programme. Nor did he think much of his teachers. But he stuck it out, made a name for himself as a tennis player, and in the end was sent on his first job to Calcutta as assistant mechanical engineer in the Sealdah division. Over the years, Jeet told us many things about the Railways.

The story of Indian Railways began in London in the 1840s. The promoters were adventurous, determined men.

They got in touch with Britain's merchants, manufacturers, and shipping interests, to whom they held out the prospect of a vast and opulent India. Once opened up by railways, they said, India would become a fabulous supply house of cotton and wheat and a huge consumer of textiles and manufactured products of Britain. They told the great mercantile houses that they would be able to bring coal by rail to Calcutta from the mines of western Bengal and become even wealthier. They put together a powerful coalition in Parliament, and together they exerted great pressure on the British government. They succeeded in getting hugely favourable contracts, which allowed them to raise funds in Britain to build and manage the railway operations in India—all of it guaranteed by the government against any risk of loss. They could not have got a better deal.

The East Indian Railway Company was one of the first to get started. It built and operated a line running a few dozen miles north from Calcutta along the Hooghly river. Later it extended it to the coal mines, 100 miles northwest of Calcutta, and subsequently to the well-populated and fertile Gangetic plains. About the same time, the Great Indian Peninsular Railway Company constructed a second line running north from Bombay for thirty-five miles to Kalyan, which it expanded later over the Western Ghats into the rich cotton fields of the Deccan. Many lines followed thereafter. The cost of construction was high because the companies had a guaranteed return of cost plus five per cent. They had little incentive to economize and they built carelessly and lavishly. When the work was defective, they simply rebuilt it. They erected stations in a grand style and provided luxury coaches for upper-class passengers.

These railway lines had a profound effect on millions of lives. People began to travel, and merchants began to send their goods to distant parts. New towns came up along the railway lines. However, the artisans in villages and towns began to lose their living because they could not compete with British manufactured goods that began to arrive rapidly. Earlier, the peasants had stored their surplus grains in the good years. Now

the railways began to carry food and commercial crops to the ports for export. Reserves were thus depleted and in the bad years of the 1870s and 1890s devastating famines followed. If the railway companies had not thought only of British needs, and been less wasteful and conserved their resources, they might have had a more benign impact. In the end, the 'spread effects' of this great investment were limited. Japan's railways, by contrast, built at the same time, had a domestic orientation, and carefully economized their limited capital. They had a more positive result. Moreover, the Indian railway network, although huge in absolute terms, was comparatively small. In 1937, India had 26 miles of railway lines per 1000 square miles of land area. In comparison, the US had 80 and Germany 253.3. It partially explains why the railways did not engender an industrial revolution in India. Nevertheless, it was a powerful legacy of the British Raj to independent India in a general economic landscape of backwardness. Without the railways, India would have been even less industrialized.

After our train journey to Simla we went to a little cottage called 'Pine Villa' in Chota Simla. The Punjab government provided us a house that was tiny and icy cold at night. But we loved our little house. It was situated in a handsome grove of oaks and deodars, and from our veranda we had a spectacular view of the next ridge and many ridges beyond. From the narrow veranda, we stepped onto a little lawn; from the lawn, there was nothing to step onto except fresh air for the ground suddenly dropped beneath our feet, as it often does in Simla.

Indians now slipped into English shoes naturally and with vigour. In the evenings, everyone in Simla went to the Mall, no matter what the season. Between five and seven o'clock the thing to do was to get dressed and take a stroll from the Ridge to the end of the lower Mall in order 'to eat the air'. It was a delightful winding stretch of about a mile, along a gentle slope, with glamorous shops and smart cafes. One went there to be seen and to see others, and every evening was a veritable fashion parade where men, women, and children vied with one another in the elegance of their clothes. The colourful display

of women's silk sarees was especially striking, but even the men strutted about in the latest cuts from London. The refugees from west Punjab were so happy to be alive that they embraced Simla's *joie de vivre* with reckless abandon. They pulled themselves up to make a new life rather than regret the life that they lost in Pakistan. The Punjabi on the Mall felt the same emotions that a fashionable Parisian must have felt when strolling on the Champs-Élysées at the turn of the century.

My father earned a modest salary, and my mother ran the house on a tight budget. Her biggest expenses were for school fees and uniforms, and milk for her growing children. She worked hard to get us into an English-medium school, although it cost more than she could afford. It had a long waiting list because of the recent influx of refugees and she had to apply 'influence' to get us in. She made sure that we worked hard at studies and got good marks, especially in English and mathematics. She also wanted us to excel in sports. At the end of the month there was little money left for anything else.

We used to come home from school around four in the afternoon, drink a glass of hot milk, and go out to play. We returned after an hour to do homework under the watchful eyes of my mother. Before dinner she would sit with us and tell us stories from the Ramayana and Mahabharata. My mother's narration from the ancient Hindu epics was deeply coloured by her middle-class values. She always emphasized the virtues of thrift, hard work, courage, and a respect for elders. On the other hand, my father, who often joined us at this time, emphasized the love of God, respect for the guru, the value of meditation, and the ultimate goal of life, spiritual enlightenment.

My father was a mystic and he devoted all his spare time to meditation or to reading discourses by his guru. In the evenings he would go on a solitary walk and return to his room to meditate, when we were expected to be quiet. Because of my father's spiritual inclinations we were vegetarian. But even those who ate meat did so only occasionally. This was partly because meat was expensive, but also because Indian vegetarian food is tasty. My father used to say that one inherited the

karma of the animal that one ate and therefore one regressed in the reincarnation cycle of births and deaths. The goal of life was to break free from this cycle and achieve unity with the Absolute. It did not make sense to eat meat and add to one's karmic burdens.

Not unlike other Indian boys, I was closer to my mother. She was clearly the dominant presence in my childhood. My father, in comparison, was a distant figure. He seemed always occupied by his work or his spiritual quest. He was a good and kindly man, gentle and soft-spoken. He was also extremely shy and reserved, preferring his own company. If I had a problem or needed advice, I would turn to my mother. I cannot recall that she indulged me excessively, but she must have, for my early memories are surrounded by a warm glow. She wanted us to grow tough, do well in our exams, and rise in the world.

After dinner we listened to the English news on the radio, read in an authoritative manner by Melville De Mello. The news usually consisted of reports of Jawaharlal Nehru's activities and speeches. Nehru inspired in us the ideals of democracy, socialism, secularism, and world peace. We innocently believed in the UN and in the unique role that India was meant to play in a new moral world order.

Nehru was a hero to the new nation and we had implicit faith in his Five Year Plans that would develop our country and one day wipe poverty from our land. We were proud that his government was investing in steel and power. Since my father was helping to design the irrigation projects in Punjab, we felt that we too were a part of nation building. It was an exciting time, and although we did not discuss politics at home, there was always optimism in the air. We felt as though we were creating our future based on grand ideals. The country was free at last, and it was a new and wonderful experience for my parents and their friends who had only known colonial rule.

My mother used to say, 'I cannot believe it! I wake up, pick up the paper, and I don't read about Gandhi and Nehru being arrested for seditious activities. Then I pinch myself, and I say, You silly thing, we are finally free. And I feel like

dancing all the way to the Mall in my nightclothes because there is no English sahib to judge my behaviour.'

One of my earliest memories is of our class preparing for the UN Day. It was in 1950. We were learning how to march in single file, to salute, to about-turn, and to stand at ease. Suddenly we heard that the Prime Minister was coming to town, and our class had been selected to stand along the road to cheer as his motorcade went by. There was endless excitement and our teacher was in a constant state of hysteria. On the appointed day, we trooped to the Mall. It had a festive air with a continuous stream of flags—the blue UN flag alternating with the Indian tricolour. Thousands of children from dozens of schools thronged the street. Nehru's open car arrived right on time, preceded by motorcycles and a pilot car with a siren. Nehru looked unbelievably handsome, I thought, in his Gandhi cap and long white coat, with a red rose on the lapel. All of a sudden, he threw a garland of marigolds towards us. It brushed my arm and landed on my neighbour, who became an instant celebrity. I too shared in some of the halo—after all, the garland had touched my arm.

Thinking back, I feel the garland was symbolic of all the fine things that Nehru gave us. He united a nation out of the most heterogeneous people on the earth. He nurtured democracy. More than any other individual, we owe him our present-day attachment to democratic institutions. He respected minorities and made us secular in our temperament. Most important, he injected in us the modernist ideas of liberty and equality. He gave us youthful hope and optimism. Yet, I had failed to catch the garland. That, I believe, symbolized his failed economic promises, which have cost us two generations of missed opportunities. Instead of socialism, his path led to a corrupt, domineering state which we are desperately trying to dismantle today with the economic reforms. The problems of Nehru's India began to appear soon after Independence, and my cousin Jeet discovered them on his very first day at work.

By the time that he left work that day in December 1954 Jeet had created a sensation. He spotted a ticket collector (TC) openly taking bribes from ticketless hawkers as they came past the exit gate at Sealdah station. Without another thought, he sprang into action. He noted the TC's badge number and grabbed his open palm, just as it was about to be greased by a vegetable vendor. With his other hand, Jeet emptied the TC's bribe-filled pocket. Notes and coins fell out.

'Thief!' shouted the TC. An understandable reaction, for the TC did not recognize him. 'Thief, catch the thief!' he screamed again, and Jeet saw the whole station descend upon him. At that moment, Jeet made the best decision of his life—he ran for his life. Followed by a menacing mob, led by ticketless hawkers and egged on by the TC, Jeet sprinted towards the moving express to Ranaghat. His training as a tennis player helped him to quickly put some distance between himself and his pursuers. However, Jeet did not know that the TC was also a star footballer of Mohun Bagan, Calcutta's premier football club. As he looked back, he found the TC rapidly closing in. Providentially, Jeet reached the accelerating train and leapt in. The TC too tried to jump, but he missed and there was a loud thud on the platform. A few seconds more, and Jeet realized he would have had it. From Ranaghat he caught a train to Kanchrapara, where he arrived in time for tennis. That evening Jeet entertained the Kanchrapara club with an account of his first day at work.

The next morning the entire Sealdah division was on strike. All the trains were at standstill. On his second day at work, Jeet was brought under police guard, and he found 4500 screaming workers were gathered on the maidan outside. Goaded on by trade union leaders, they were baying for his blood. The railway managers were anxious. They were under great pressure from the top brass to get the trains moving. Jeet was brought before the division superintendent (DS), who was surrounded by a dozen angry union men. The DS asked Jeet to make an apology to the TC and the whole matter would be closed. Jeet refused. He demanded, on the contrary, that action be taken against the corrupt TC.

'But you abused the TC!' said a menacing union leader.

'No, I caught him red-handed.' Jeet produced the Rs 69 that he had taken from the TC's pocket.

'Well, it's your word against his, isn't it?' said the union leader.

'And that of a hundred witnesses,' said Jeet.

'Why don't you be a good chap, Mr Varma?' said the DS in a conciliatory way. 'Offer an apology; it doesn't cost you anything. And we are back in business.'

Jeet stood adamant. The division superintendent dismissed everyone and called his boss. As Jeet was leaving, the DS hissed, 'You realize of course, this is going to hurt you.' Ten minutes later, Jeet heard on the microphone, 'Apology is done. Go back to work. Apology is done. You won't be penalized for work stoppage.' Jeet was stunned. A few days later he learned that the TC had been let off with a warning, and soon the affair died. But it left a bad taste with Jeet. He thought his bosses were weak and cowardly, the unions all-powerful, and corruption unstoppable. Jeet's story brought the first intimations of the rot that would settle in the monopolistic public sector. Almost everything that the government touched—certainly in the economic sphere—would turn to dust.

The state-owned railways are a miniature portrait of contemporary India, reflecting both the good and the bad. They are the people's transport. For Rs 40 one can travel 200 kilometres in a second-class compartment. They are cheaper than anywhere in the world because extortionate freight prices subsidize the passenger fares. Yet, seventy million Indians travel every year without tickets. The railways symbolize democracy's triumph. The poorest Indian has become mobile. They are also inefficient, corrupt, hopelessly overmanned, and politicized. They employ 1.5 million people, seven times more manpower per kilometre than in the developed countries. Their powerful unions resist scaling down or modernization. The fastest train between Delhi and Bombay averages 65 km per hour and it is often late. Yet, Indians do not seem to mind because they have no other alternative. Private companies

would not dream of transporting goods by rail, not only because of high tariffs and constant delays but because they would be stolen. Consequently, even petrol and diesel are inefficiently transported by road. Politicians make investment decisions in the railways and they bear no resemblance to commercial considerations or consumer needs. They are nationalized and there is no prospect of privatization.

I remember little from my schooldays in Simla, but I do recall my teacher telling us the story of one of the most famous battles fought on Indian soil—between Alexander the Great and Raja Puru (Porus, in Greek) of Punjab. I was so moved by Puru's courage that I named my younger son Puru. Later in life I returned to this encounter because it illustrated an important weakness in the Indian character—our lack of teamwork. Since this trait affects our competitiveness as a nation, one of the themes of this book, I narrate the story at some length.

On a fine spring day in 326 BC, Alexander marched over the Hindu Kush and descended upon India. There was the glitter of spears as long lines of mailed men passed through the Khyber Pass and emerged upon the plain about Peshawar. Having decimated the mighty Persian Empire, the 'Conqueror of the World' now sought power and wealth across the river Indus. He had heard many fabulous tales of India from Herodotus—among others of giant, gold-digging ants who laboured in gold-strewn deserts filled with riches.

The bazaars and palaces of Punjab were filled with talk ever since Alexander made the Persian Empire vanish four years before. The princes of India had shivered when they heard that Persepolis had been set on fire. But the India that Alexander faced was not united. Even Punjab, guarding the northwest gateway, was divided between three major kings and dozens of free tribes who were constantly at war. Their inability to unite lost them four years during which they could have planned for Alexander.

Alexander crossed the Indus near Attock and reached the

kingdom of Taxila, between the Indus and Jhelum (Hydaspes) rivers. Ambhi, the king of Taxila, from prudence or cowardice, chose not to fight. He sent Alexander envoys and presents and offered him his army, provided his kingdom was spared. Ambhi warmly welcomed the Greek invader and threw open the gates to his city, long famous as a centre of trading and learning. The inquisitive crowds in Taxila watched the strange Greek figures in curious dresses who milled about their streets.

Smaller chiefs from the surrounding areas brought presents, and Alexander rewarded them with generous extensions of their territories and vessels of gold and silver. The Greek soldiers performed games and sacrifices before the awestruck townsmen. The Greeks were impressed by the civilized city life within the mud-brick maze of Indian streets. They visited the university and the learned men. They watched the rich townsfolk go about in linen tunics, capes, and turbans, their beards dyed white, blue, red, and purple. Some carried umbrellas, others wore leather boots. Holy men blessed the passers-by by smearing their foreheads with oil.

Puru watched Alexander from across the Jhelum river. He observed the traitorous alliance struck by Ambhi, his old enemy. He saw the other princes rapidly submit to the new power, including his own Paurava kinsmen. He realized that he was up against huge odds, and he had to fight or surrender. When Alexander's envoys came to summon him to Taxila, Puru replied that he could only meet another king as an equal. War became inevitable and the stage was set for one of Alexander's greatest battles.

Alexander's army soon marched towards the Jhelum, accompanied by Taxila's forces. When they reached the river and saw Puru's hundred elephants massed on the other bank, the Macedonian cavalry became frightened. Not having faced elephants before, the Greeks feared them as soldiers feared the Patton tank in recent times. Behind the elephants stood a thousand chariots and Puru's 40,000 infantry. Although different figures are given about the relative strength of the two forces,

they were more or less equal, with Alexander's cavalry superior in numbers. Alexander quickly realized that a direct crossing would be impossible. Meanwhile, the river began to rise, as the snows melted early in the Himalayas. Heavy rain and storms made the river swell further. Puru's spies brought news that Alexander had ordered vast quantities of grain, and since nothing seemed to happen for days, Puru concluded that the invasion was put off for several months, till after the monsoons.

One morning at dawn, Puru was stunned. He learned that boats filled with horses had crossed twenty miles up the river. Concealed by the heavy, torrential downpour Alexander had quietly moved a third of his army upstream. He had chosen this point because it was hidden from the other side of the bank by a wooded island. As the rain abated, Alexander and his cavalry crossed in the first light of dawn. A single narrow boat carried history—the king himself with his great captains, who would one day rule vast parts of the world: Ptolemy, the future king of Egypt; Lysimachus, the future king of Thrace; Perdiccas, the future regent; and Seleucus, who would inherit Alexander's vast Asian empire. However, they were shocked that they had not reached the other shore. They were still on the island, which a swollen channel had completely cut off from the eastern shore after the rains.

It was here that Puru's outposts discovered the Europeans. They had to hurry to get across because the Indian troops would arrive any moment. They found to their horror that the channel was not fordable: they were caught in a trap. They made desperate efforts at various points, but they were all too deep. In that moment of panic, Alexander reassured his men that they were doing all this for the sake of glory—one day the people of Athens would talk and write about them. Eventually, they found a spot where the water was only waist-high and the men and horses struggled through.

When Puru heard that the enemy had crossed, he sent his son with a force of 2000 mounted men and 120 chariots. He did not send the bulk of his force because he did not believe that

this was the main attack. Across the river, he saw the Macedonian phalanxes, the royal guard, and the Asiatic horsemen were in a state of readiness. As soon as Puru's son reached the scene, he was greeted by a hail of arrows followed by squadron after squadron of the famous Macedonian horsemen. Soon they were overpowered. Four hundred cavalry fell fighting. Puru's son was slain in the unequal battle. All his 120 chariots were captured—most of them stuck in the mud, the charioteers dead.

When Puru heard of this, he realized that the hour of battle had come. He turned his entire force upstream. He placed himself on the largest elephant, alongside the image of Indra. Puru was a giant of a man, and his troops took courage from the sight of their powerfully built leader with the banner of the warrior god. The battle began with the trumpeting of the elephants, which terrified the European horses. Alexander's thousand mounted archers from Central Asia began to hail arrows upon the Indian left flank. The Indian archers responded, but the slush from the rain made it impossible to get a firm rest for their longer bows. When the Indian cavalry began a wheeling movement on the left wing, Alexander's horse guard charged upon them from the right. The Indian cavalry found itself outnumbered by the professional Greek cavalry, which had the experience of a hundred battles. Finding that they now had the upper hand, the Greeks sprang a surprise attack from the rear. Puru's infantry was thrown into confusion. The elephants, pushed back from the front, were now hemmed in from behind. Under stress, they caused a stampede on their own men. The European infantry now entered the battle and resistance became hopeless; butchery followed. Meanwhile, the balance of Alexander's forces crossed the river, including two fresh Macedonian phalanxes under Craterus, and they completed the rout. In the end, Alexander's superior cavalry had decided the battle. Among the thousands who died that bloody day were two sons of Puru and a brave neighbouring prince.

Puru himself, unlike the king of Persia, did not flee or

surrender. Despite the losing battle, he kept fighting and goading his men to keep their honour. Alexander's forces were impressed, both by his size and his courage. It was only when he was hit by a dart on his right shoulder that, wounded and tired, he turned his elephant to safety. He had not gone far when Alexander's envoy came galloping after him. He recognized the hated face of the traitor Ambhi. He turned around and hurled a lance with whatever strength his wounded arm could muster. Ambhi evaded it and turned back. Soon, two other horsemen came up to him. He recognized one of them as his friend. Loss of blood had made him intolerably thirsty. He halted his elephant and got down. Alexander's envoys honoured him and gave him water to drink. He commanded them to lead him to their king.

As Puru neared the Macedonian lines, Alexander came galloping out to meet him. According to the Greek books, Alexander was filled with admiration for his brave and proud adversary. He asked Puru how he wished to be treated. 'Treat me, Alexander, as you would treat a king,' replied Puru. Alexander was confused and asked him to be more precise. 'When I said "a king",' repeated Puru, 'everything was said.'

Alexander was pleased with the reply. He not only gave Puru back his kingdom but, much to Ambhi's chagrin, he enlarged Paurava territory to all the lands Alexander hoped to conquer towards the east. Thus, Puru accepted the Greek dominion and became Alexander's faithful and energetic ally. Puru's own people, like the Greeks, were also proud of their king. Alexander ordered a city of victory, Nicaea, to be built on the field of battle, and another at the grey spot on the opposite bank from where he had crossed the Jhelum that morning. He called the second Bucephala, after his great horse, who had died that day. The Greeks then performed their sacrifices and athletic games before the admiring people of the Paurava kingdom. After this great battle of the Hydaspes river the Greeks marched on. When they reached the fifth river of Punjab, the Beas (Hyphasis in Greek), Alexander's tired army

refused to go further. He ordered and cajoled them, but it was to no avail. Disappointed, he turned back, somewhere near modern Gurdaspur.

Seven years later, all trace of Greek authority had disappeared from India. The chief reason was another romantic figure, Chandragupta, who was a lesser warrior but a greater ruler than Alexander. The young nobleman from Magadha, helped by his subtle, Machiavellian adviser, Chanakya, organized an army and overcame the Greek garrisons. He established the Mauryan Empire, which ruled north India and Afghanistan for 137 years.

At the end of this saga, the main question is, why did Puru lose and Alexander win? On the face of it, the invader's superior strategy and the element of surprise clearly gave the Greeks a decisive edge. However, beneath the surface there were important differences between the two armies. Professor Stephen Rosen, the military historian from Harvard, has recently found the answer in the divisions in Indian society, which resulted in poor coordination in Puru's army. Puru's cavalry refused to aid the infantry. On the soggy banks of the Jhelum that morning, Arrian observed that Puru's chariots got stuck and the charioteers were unwilling to double up as infantry. Later in the day, cohesion in the Indian army broke down as the Macedonian phalanx put pressure on Puru's infantry, and the elephants pushed back and began to trample their own men. In this crisis, Rosen notes, 'the Indian cavalry . . . did not assist the Indian infantry against the enemy phalanx but dealt as best as it could with the Macedonian cavalry'.

In contrast, Alexander's army was a professional machine. Originally it had been, like Puru's, a tribal militia. Neither was Greek society more cohesive, but Alexander had professionalized his army and separated it from the divisions in society. When Alexander's cavalry first sighted Puru's troops, their first instinct was to charge. Alexander, however, 'checked the advance of his cavalry to allow his infantry to come up with him. Regiment by regiment, they made contact, moving swiftly until the whole force was again united.'

Indian military historians have also noted this aspect. Rosen attributes the lack of solidarity partially to the caste system, although he correctly points out that caste structures were not yet fully developed. Caste, he hypothesizes, divides society, encourages loyalty within the sub-group, and discourages it across caste lines. Puru's upper-caste mounted cavalry did not sufficiently support the lower-caste soldier who was on foot. Jadunath Sarkar, an authority on ancient and medieval military affairs, said that although 'the Indian defenders of the Punjab were brave, each man fought to death in isolation.' The soldiers were 'unable to make a mass movement in concert with their brethren of other corps'. The people of Punjab were disunited and narrowly self-centred, with the net effect that 'divided we fell'.

Puru may have lost to the greatest general of his time, but the theme of the poor teamwork runs throughout Indian history. Babur's victories at Panipat and at Khanua (against the Rajput confederacy, led by Rana Sangha) are partly a result of the same deficiencies. Although the Marathas had more cohesive armies, they too suffered because some subcastes armed themselves against others. And the redoubtable Mughal armies suffered the same flaw once they got Indianized. The British Empire professionalized the Indian armies, however, and after 1947 the Indian military has been 'an island of discipline'. Despite that, there have been problems between generals in the battlefield. In the 1962 Indo-Chinese war, the commander of the Fourth Division at Se-La confessed that 'private animosities, personal weakness and in many cases lack of mutual confidence among the commanders . . . led to disaster'. Even in the wars that we won—1965 and 1971—there were major failures of coordination, according to Generals Harbaksh Singh and Sukhwant Singh, and 'the only justifiable conclusion is that in 1965 the Indian Army displayed low levels of cohesion within infantry units, which led to their early collapse in battle; low levels of cohesion among infantry units which affected

their ability to cooperate on the battlefield; and perhaps even lower levels of cohesion between tank and infantry units'.

Poor teamwork is pervasive in India. Take any institution in India, scratch its surface and one finds factionalism. Whether it is a company, a university, a hospital, a village panchayat, or a municipal board, it is beset with dissension, and it affects national competitiveness. What is the cause of our divisiveness? Is it our diversity? Is it the caste system? I am wary of cultural explanations but I asked my cousin, Usha Kumar, if it had something to do with the Indian personality. She is a trained psychologist from the University of Michigan, and she pointed me to Sudhir Kakar, the author of *The Inner World: A Psychoanalytic Study of Childhood in India.* Kakar said that it begins with the Indian bride, who is not fully accepted in her husband's home until she produces a male child. She is so grateful when a son is born that she indulges him to excess. As the boy grows up, he remains close to the mother and distant from the father. The end result is that the boy grows up narcissistic and has a weak ego.

The adult Indian male personality that emerges from various psychologists' accounts has a weak sense of the self, one that needs the support of authority figures. He is less comfortable on his own. He needs appreciative, older, hierarchical figures, even late in his professional life. His relationships tend to be vertical and 'control oriented', and he is not good at forming horizontal, cooperative relationships with his peers. This translates into poor teamwork. In an organizational setting, such a person tends to behave in an egotistical manner. A good team player is self-confident and forms easy and healthy relationships based on equality.

It is difficult to say how valid is this hypothesis in the absence of broad socio-psychological data (which, in turn, would need hundreds of senior managers, administrators, and generals on psychiatrists' couches). Nevertheless, there seems to be near-universal agreement about this personality among professionals. I realize that historical explanations can be dangerous and psychological ones treacherous. I tend to be more comfortable with the economists' explanations. Hence, I believe that with more competition in the Indian market, we will get better teamwork in the business world. When companies fight for survival, there is less luxury for egotistical behaviour; one sinks or swims together. Since the 1991 reforms Indian markets have become more competitive, cohesion should gradually increase. According to Kakar, Indian society is also changing. More women are working, and there is less time to overindulge the male child; so perhaps there is hope that the Indian male will grow up with a healthier ego and be a better team player.

4

Blind Then, Blind Now

Good intentions are useless in the absence of common sense.

—*JAMI, Bahristan*

Some men occupy one's imagination for a whole generation, and this is literally true of Jawaharlal Nehru. Young people of my generation remained under his spell for decades. I never met him personally, apart from fleeting glimpses from a distance when I was a child. I regret this, for it seems to me that to meet and to hear at a close distance someone who has so occupied one's imagination must modify one's impression deeply, and make it more concrete and less unidimensional. Nehru taught us all our good and bad habits. He taught us to be liberal and tolerant (of Muslims, especially). He inculcated in us a respect for democracy and a loathing for feudal behaviour. He infected us with his idealism. But he also reinforced our prejudice against businessmen and profit. We never learned about the virtues of enterpreneurship and competition and we paid dearly for this blind spot.

On the day that I started school in Simla, Kasturbhai Lalbhai, a Jain businessman 1600 kilometres to the south, in Gujarat, founded the Indian chemical industry. Kasturbhai was

a Marwari like G.D. Birla, but he belonged to the older and more illustrious family of Shantidas Zaveri, who had been jewellers to the Mughal emperors. The family had migrated from the sands of Rajasthan around the time that the Mughal Empire extended its rule over Gujarat.

Gujarat has been a trading hub since ancient times. For a thousand years Gujarati traders sold Indian cottons and silks to the Arabs in return for silver and gold. Until the fifteenth century Chinese junks used to stop here to trade. In the seventeenth century the English East India company set up warehouses on the coast, and Gujaratis became bankers to the English in their three-way trade between Europe, India, and China. Many Gujarati traders also moved to East and South Africa and the Middle East. Gujaratis were rigorous savers, and their unpaid family members worked endless hours and lived abstemiously to ensure their success. But the success of the migrants also created resentment among the locals, as it did in the 1960s in Uganda. They were expelled and hurled westwards to Britain and America, where the Gujarati diaspora began a new phase of capital accumulation.

In the sixteenth and seventeenth centuries, Gujarat was one of the richest centres of trade and commerce in the world, serviced by the busy ports of Surat and Cambay. This was the time when Kasturbhai's family prospered in trade and banking in Ahmedabad. An English document of 1627, the year of Emperor Jehangir's death, described their family as 'the deceased king's jewellers'. Shah Jehan, who had just finished building the Taj, conferred on them a robe of honour in 1656 and a grant of villages and havelis and gardens in Ahmedabad. East India Company documents refer to them as 'Chief Banians' to the Mughal court. Because of their power and influence, they acquired the title Nagarsheth, 'merchants of the city'.

Soon after winning the throne, Aurangzeb, the last of the great Mughals, chose Shantidas Zaveri to bring the message of conciliation to the city population. The new emperor issued a *farman* granting Palitana, its hills, and temples to the jeweller. Shantidas used his wealth to build the gigantic Chintamani

Jain temple in marble, which the German traveller, J. Albert de Mandelslo, described in 1638 as 'without dispute, one of the noblest structures [in the world].' Aurangzeb could not tolerate that the handsomest structure in Ahmedabad should be an infidel temple and he converted it into a Muslim mosque. However, the jeweller had sufficient advantage with the emperor to have the shrine restored. Jain records in the eighteenth century tell us that the Nagarsheth family traded in Delhi, Agra, Kota, and Bengal, and possessed shops as far as away as Dacca, and that it sold a variety of textiles which were 'light in weight and heavy in price'. For 200 years they were the leading family in Ahmedabad, much admired by the populace for supporting Jain temples and charities.

The British rule brought the railway to Ahmedabad in 1864. With it came opportunities for the export of cotton from the Gujarat heartland to the mills of Manchester, especially after the American Civil War cut off their supply of cotton. The British also brought modern education. The Nagarsheth family learned English and shifted from trade to industry. Between 1895 and 1905 they established two textile mills. Soon there was trouble in the family. The brothers fought and their assets were divided. Lalbhai, the head of one branch of the family, died of a heart attack in 1912. Kasturbhai, his second son, had to drop out of school at seventeen to look after their ailing Raipur mill. It was his only asset after the family division, and his family's status had plunged in Ahmedabad society to its lowest level in 200 years. For the rest of his life, Kasturbhai was driven to regain the glory of his family.

The teenager learned the textile business quickly. Soon came the First World War. Imports were cut off and domestic demand skyrocketed. Kasturbhai was ready. He turned the sick mill around and made huge profits during the war. After this, he never looked back. He invested his war profits to set up four new textile mills, and by the mid-1930s he had seven mills and had become the largest producer of textiles in India, and among the largest in the world.

When competition went into a shell during the Great

Depression, Kasturbhai upgraded and expanded his mills. 'If the price of textiles is low,' he argued, 'so is the price of textile machinery.' He acquired new machines at throwaway prices in the gloomy world market and he moved upwards to make finer and higher value-added varieties of textiles. He also began to make starch. When the Second World War came, he was again ready to take advantage. With seven modernized mills under his control, Kasturbhai began to flood the domestic and export markets with a wide range of high-quality textiles. Again, war brought him huge profits. By now, he had restored his family's place in Gujarat society. His philanthropy had also become legendary. Like G.D. Birla, he had become a major donor to the freedom movement and a national figure. Yet, he continued to suffer from discontent.

With the coming of Independence, Kasturbhai, like many Indian businessmen, began to dream of glory. Having conquered the textile industry, he went in search of new businesses. He got the idea of making synthetic dyes and colours, which the textile industry needed in vast quantities. Until then dyes had been imported, mainly from Germany. Although India had once held the world's monopoly in indigo (until synthetic dyes were discovered in the twentieth century), a modern dyestuff industry was non-existent in India, and it could become the nucleus, he thought, of a broad chemicals business.

Kasturbhai flew to New York, where he signed an agreement with American Cyanamid to design a plant and provide technical expertise for a new chemical plant. He registered the new company on 5 September 1947, the day that I joined first grade in Simla. It was the beginning of a brand new industry in India. He called it Atul, meaning 'the incomparable'.

Soon a spanking new town came up in the wilds of Gujarat. Kasturbhai employed local tribals, whom he trained. He also built neat little homes for them. In March 1952, when the new plant was ready, he invited Jawaharlal Nehru to open it. Nehru refused. He had recently committed the nation to the socialist goal of planning. He was certainly not going to inaugurate a capitalist factory. He had persuaded the Congress party to

reject the narrow path of the capitalist West because capitalism increased inequality and cornered society's savings. It hired mainly skilled middle-class workers, excluding the vast majority of peasants from the gains of development, and benefited only those who were already affluent. Only over a hopelessly long term might capitalist development trickle down to the masses, Nehru felt, and this was clearly unacceptable.

A few weeks later, however, Nehru relented, justifying to himself that his 'third way' or the Congress planning model did not totally reject private enterprise—as long as it was under social control. Besides, Kasturbhai had been extremely persistent and infected him with his enthusiasm. (That his own sister, Krishna, was married to Kasturbhai's sister's son, Gunottam Hutheesing, might also have had something to do with it.) Thus, 190,000 people showed up at the opening and Nehru addressed them in his halting, sonorous voice: 'Sheth Kasturbhai has set up a basic industrial unit, which will go a long way towards our industrial progress. The dyestuff and chemical industry has a special significance in our total economy. I view this project in a broader national context, the advantage it will bring to the nation, and not in terms of profits to an individual or a company set up by an individual.' Despite his best efforts, the socialist Nehru's defensiveness in opening a private businessman's factory was obvious to everyone that day.

Forty-four years later, in March 1996, I spent three days in Ahmedabad with Kasturbhai's grandson, Sanjay Lalbhai. He had invited me on a consulting assignment, and I discovered that Kasturbhai never did realize his dream of creating a great chemical industry. Atul had done reasonably well, but not well enough to generate the surpluses needed to expand and build an industry. The government's anti-business, socialist policies—extortionate taxes, which rose to 97 per cent, the lack of licences for 'monopoly houses' like Kasturbhai's—were the main reasons for the failure. The family's textile business had also declined along with the rest of the Indian textile industry. Only in the mid-1980s did the energy return when Sanjay Lalbhai took over Arvind Mills and turned the business around.

Sanjay found the answer in denim, and he went on to become the third largest denim producer in the world. He also became the world's lowest-cost denim producer and forged an alliance with a leading European textile company to penetrate markets there.

My parents read about Kasturbhai Lalbhai in the newspaper that day in 1952 when Nehru opened his chemical factory. The newspaper reports captured the expansive mood of Indian business, as well as Nehru's defensiveness and discomfort. We were living in the wilds of Bhakra-Nangal at the time. I was ten years old and my father had been transferred there to design the powerhouses at Bhakra dam on the Sutlej river. His job was to harness the energy released from dropping an awesome body of water from a 200-metre-high concrete wall, stretched half a kilometre across a jagged Himalayan gorge. Over three years half a million cubic metres of concrete were raised from the ground to create the greatest 'temple of new India'. There were others—Hirakud dam on the Mahanadi river, gleaming steel plants at Bokaro, Bhilai, and Durgapur, and dozens of other big, audacious factories built by Nehru's government to fulfil the nation's image of its future as an industrial giant. Big dams are in disrepute today, but fifty years ago Bhakra-Nangal remained the symbol of this dream in the nation's imagination.

It was clear to me, even at that young age, that the great dam inspired feelings bordering on ecstasy among the men who were working on it. My father was no exception. Normally he liked to neither talk about his work nor to express undue emotion. Therefore, I was surprised to find him caught up in the fever of building the dam. He worked untiringly. Sometimes I would not see him for days together. He would leave early in the morning, before I got up, and return late, after I was asleep. Most of his colleagues did the same. They were transformed by the magnitude of the challenge.

'Earlier, we used to measure our achievement in terms of the pleasure we gave to our bosses,' said my father one day to my mother. 'Now I feel differently. Here at Bhakra, I measure my work in terms of the results that we produce and the pleasure that we get.'

It was dusty work. He would come home covered in mud. Even the files that he brought home were laden with dust. 'Before, I used to be a slave to my files,' he told my mother. 'Here, in this huge project, where no one knows the answers, we take quick and clean decisions on the spot. We have never built a dam like this before, with 90,000 people working on it. So we have to take chances and the morale is important.' As I think back to those days, I believe it was the idea of achievement—the new spirit of a rising nation—that generated the morale. It was the spirit of the age. Bhakra was a great dream, becoming a reality before our eyes.

I recall one especially difficult week. They were blasting tunnels in the rock to divert the water of the Sutlej and nine workers were caught in a landslide. My father and his colleagues tried everything they could think of without success. When they had given up all hope of saving the men, a junior engineer came up with a desperate plan on Sunday evening. They worked all night and by the morning they had succeeded in rescuing the men. When my father returned home with his colleagues, he was weeping like a child. The others started crying as well. My father and his colleagues embraced the junior engineer in turn. All of them wept like children from happiness and excitement. I shall never forget that moment.

On a fine morning in 1954 I sat proudly beside my father, along with thousands of dignified workers, and we listened with reverence to Nehru's words: 'Probably nowhere else in the world is there a dam as high as this . . . As I walked around the site I thought that these days the biggest temple and mosque and gurdwara is the place where man works for the good of mankind. Which place can be greater than this, this Bhakra-Nangal?'

Nehru spoke at length that day about his vision of India. He talked glowingly about the new state-owned companies, calling them the 'temples of modern India', an expression which drew applause from his audience. He wanted to build a just and casteless society with a socialist pattern where the inequalities of wealth would diminish. Since there were few resources in the private sector, only the government could make these huge investments. At the same time, he explained, he wanted to preserve democratic freedoms; he did not want India to become a communist society like Russia and China. Thus he called his system 'a mixed economy', which would combine the best in socialism and capitalism.

Nehru was a handsome man, and we all fell in love with him. Everyone in my family was proud of him. All our neighbours admired him. My parents' friends never tired of talking about him. The Indian middle class had bought his dream wholesale. And, why not? It was a good dream. It captured the ideals of the modern age, founded on the equality of all human beings. It was not unfashionable in the 1950s for either the old or the young to admit to idealism. Unlike the tired, old, and devious nations of Europe whose 'realism' and 'balance of power' had brought on two world wars, we in India felt that we could build a nation on moral principles and on non-violence. Had we not won our freedom based on Gandhi's non-violent principles? In contrast, the passage of the other two great nations, China and Russia, into modernity had been based on violent revolutions. We thus had permission to take the moral high ground. (In our minds, the violence that accompanied Partition did not seem to count.)

An odd thing happened that morning as Nehru was nearing the end of his speech. One of the engineers in the front row got up to go to the toilet. Nehru was distracted and he stopped in the middle of his sentence. He became annoyed, went off on a tangent and began to rant about discipline and courtesy. The poor engineer was mortified. My father later told my mother that it was strange for a man so acutely conscious of his place in history to have been diverted by trivia.

Decades later, when I think back to that morning, I am filled with sadness. Nehru's 'mixed economy' turned out to be a gravely flawed image of our future. It was Nehru's fault, partly, that we never learned to value the dreams of Kasturbhai Lalbhai and G.D. Birla. But how was an innocent, starry-eyed ten-year-old boy to know that Nehru's intellectual blueprint of

state-directed industrialization, based on publicly owned heavy industry and insulated from international competition, was fundamentally wrong? Nor could he have predicted that the state would so emasculate the textile industry with controls that it would be as good as destroyed. Had a hundred Kasturbhais been encouraged rather than discouraged we might have had a different India. When ordinary human beings err, it is sad, but when leaders do, it is a national tragedy.

5

If We Were Once Rich, Why Are We Now Poor?

> The greatest thing since the creation of the world, except for the incarnation and death of Him who created it, is the discovery of the Indies.
>
> —*Francisco Lopez de Gomara*

Years later, my grandfather admitted that he was a little sad to see the British go. He raised himself on his elbow and called up to me, as I was trying to sleep on the upper berth of the Frontier Mail, 'It is certainly nice to feel the fresh breeze of freedom, but you must remember, my son, that India had been the best governed country in the world for a hundred years, and Punjab had been its best governed province. Why, Britain itself was not as well ruled, because it was, after all, a messy parliamentary democracy, and it was not run by the Indian Civil Service.' As his words sank in, I peered out of the window at the dusty wheatfields of Punjab rushing wildly by in the light of the full moon. After a pause, he added, 'Yes, the English were arrogant, but it was a cheap price to pay for a hundred years of peace, good government, railways, irrigation

canals, and the best law and order in the world. You may call me anti-national, but this is how I feel.'

'If the British were such good rulers, why was India so poor?' I asked. Clearly, he had not thought about it. He had never connected governance with prosperity. After a very long pause, he admitted that he did not know. 'For that you must speak to your uncle, Sat Pal.'

By now, my father had been transferred to Delhi, along with the design offices of Bhakra dam. We lived in the heart of New Delhi, in a spanking new whitewashed colony called Kaka Nagar, under the shadow of Purana Qila. We were surrounded, initially, by other families of engineers, colleagues of my father's in the design office of the dam. Slowly, however, other families of government technocrats and professionals moved in and the colony expanded. The government had decided to solve the problem of housing its expanding bureaucracy by building spacious but simple and monotonous apartments on two levels. Those who lived on the ground floor had a pocket garden; those on the upper level got the roof terrace above, which was needed in those days before air-conditioning because we slept outside in the 100°F heat of the summer nights. The colonies themselves were nicely laid out with playing fields and grassy squares, even if they were standardized constructions of the Public Works Department.

Soon after we arrived in Delhi, my mother's first priority was to get us into a good school. After some quick research, she decided that it was going to be Modern School on Barakhamba Road. It had the right mix of the traditional and the modern, but most important, it had high standards. It was not as Westernized as our school in Simla. She also felt that we needed to become stronger in Hindi and mathematics, which had been the weak spots in our earlier education. The question was how we were to get into Modern. We did not have money or influence. But my mother had determination. She went to the school first thing Monday morning. The principal would not see her. She waited until lunchtime. She returned on Tuesday morning, and the same thing happened again. She

came back home feeling defeated and she cried all afternoon. On Wednesday morning, she tried again. Finally, on Thursday the principal took pity and called her in. He was sceptical of our ability to cope with the tough standards of the school, but she persuaded him to test us. We did reasonably well in the tests and he reluctantly agreed to let us in on a trial basis. As it turned out, all of us did exceptionally well in our first exams. Grudgingly, the principal admitted to my mother that he had been wrong to treat her as he had.

Today every middle-class parent in India goes through my mother's anxiety and humiliation. It is worse now because the middle class has grown, and the demand for good private schools has outstripped supply. The story of education in free India is a sad one. The government created a vast number of schools, practically free, after Independence. But they were so uniformly bad that the middle classes shunned them and scrambled for places in a few private schools. Thus arose a situation of scarcity, and you needed either money or contacts to get in. If this is the plight of the middle class, the situation of the masses is tragic. The state has failed to provide both the quantity and quality of education. Despite the lip-service to universal education, 40 per cent of Indians remain illiterate.

In our history class at school we learned that Columbus went in quest of the riches of India and discovered America. Thinking that he had found India, he called the natives 'Indians'. The name stuck and so has the linguistic confusion. What captured my imagination in school was that India had once been fabulously wealthy and this had set the Europeans on their great voyages of discovery. In the European mind, the name 'Golconda' became the symbol of the haunting wealth of India. As they got to know her, India's wisdom also attracted the European mind. G.W.F. Hegel, the great German philosopher, wrote, 'From the most ancient times downwards, all nations have directed their wishes and longings to gaining access to the treasures of this land of marvels, the most costly which the Earth presents; treasures of Nature—pearls, diamonds,

perfumes, rose-essences, elephants, lions, etc.—as also treasures of wisdom. The way, by which these treasures have passed to the West, has at all times been a matter of world-historical importance, bound up with the fate of nations.'

The Portuguese were shocked that Spain, their enemy, had won the prize of discovering America when it could have been theirs. It took them five years to get over the humiliation, and in 1497, they sent Vasco da Gama the other way, with a flotilla of four ships to go around Africa and find the real India. The two-year voyage was not a commercial success and they lost 116 of the 170 crew members. Nor were the Indians interested in European trinkets and clothes. They made far better fabrics and trinkets themselves. But da Gama brought back something more important. He told King Manuel of Portugal of 'large cities, large buildings and rivers, and great populations'. He spoke about spices and jewels, precious stones and 'mines of gold'. He believed that he had found the legendary wealth of India.

The English got to this wealth more than a hundred years later. By then the kingdoms of Spain and Portugal were united through marriage. The English were at war with this formidable empire, and miraculously they had repelled the invincible Spanish Armada in 1588. The English first came to the Indies to plunder rather than to trade. They avoided the Portuguese on the west and went east to the Coromandel coast, where they set up at Madras. Discovering that the fruits of trade were better than plunder, they turned back to the Malabar coast. Carefully skirting the Portuguese, they set up a trading post in Surat, a rich port of the Mughal Empire. Next, they gingerly came downwards and established on an empty island what became the flourishing commercial city of Bombay. On the eastern coast they moved northwards and set up another commercial city, Calcutta.

The English found that India produced the world's best cotton yarn and textiles and in enormous quantities. India's textile industry was 'unbeatable for quality, variety and cost. This industry not only satisfied the large domestic demand but

exported roughly half its output throughout the Indian Ocean and indirectly to South Asia and China. To this huge market, they brought in the beginning of the seventeenth century, the huge stimulus of European demand.' Thus, by the end of the seventeenth century India controlled a quarter of the world trade in textiles. 'Indian cottons transformed the dress of Europe . . . Lighter and cheaper than woollens, more decorative (by dyeing or printing), easier to clean and change, cotton was made for a new wide world. Even in cold climes, the suitability of cotton for underwear transformed the standards of cleanliness, comfort and health.' The English learned about cotton textiles from India and soon they turned the tables. English textiles brought an industrial revolution to Britain but destroyed the lives of millions of Indian weavers.

During the Mughal Empire, at the end of the sixteenth century, India's wealth sustained more than a hundred million people. With plenty of arable land, India's agriculture was 'not in any way backward when compared with other contemporary societies, including those of Western Europe'. Its productivity too was comparable. Even the subsistence-oriented peasant got a good return. India had a vigorous and large skilled workforce that produced not only cotton but also luxurious products for the zamindars, the courts, and the aristocracy. Consequently, the economy produced a fabulous financial surplus. 'The annual revenues of the Mogul emperor Aurangzeb (1659–1701) are said to have amounted to $450,000,000, more than ten times those of (his contemporary) Louis XIV. According to an estimate of 1638, the Mogul court of India had accumulated a treasure equivalent to one and a half billion dollars.' The economic surplus was used to support the vast and growing Mughal Empire and finance spectacular monuments like the Taj Mahal.

My uncle and the nationalists were correct in saying that India was the leading manufacturing country in the world in the early eighteenth century. Manufacturing, of course, meant handloom textiles and handicraft at that time. India had a 22.6 per cent share of the world's GDP, according to Angus Maddison. Paul Bairoch confirms that it had a 25 per cent share

of the global trade in textiles. 'More important, there was a large commercialized sector with a highly sophisticated market and credit structure, manned by a skilful and in many instances very wealthy commercial class.' Indian methods of production and of industrial and commercial organization could stand comparison with those in vogue in any other part of the world. It had developed an indigenous banking system. Merchant capital had emerged with an elaborate network of agents, brokers, and middlemen. Its bills of exchange were honoured in major cities of Asia. It is not surprising, then, that English travellers to India found an economy that was dynamic and commercial, not stagnant or backward.

Given the enormous financial surplus, large exports, plenty of arable land and people, an agricultural productivity equal to the best in the world, and a large artisan workforce, the question is, why didn't a modern industrial economy emerge in India? Instead, why did India become one of the most impoverished countries? Despite a dynamic and a growing commercial sector which responded to market forces and extensive foreign trade, the truth is that eighteenth century India was significantly behind Western Europe in technology, institutions, and ideas. Neither an agricultural revolution, nor a scientific revolution had occurred. 'The competitive strength of Indian manufacturers in overseas markets was based on a ruthlessly inequitable system of distribution . . . [and] in the long run the manual skill of the Indian artisan could be no substitute for technological progress.' Even with his expanding trade, the Indian merchant was unable to change the local supply structure in order to improve the quality of his exports or to improve his logistics. This sort of flexibility in attitude would have required the application of a scientific mind.

Notwithstanding the surplus and the trade, the peasant was extremely poor. Francois Bernier, a French physician who spent twelve years in India, wrote about the poverty of the masses. He described their decrepit houses, their humiliating lives and the dramatic inequality between the tiny rich and the impoverished many. Because the rapacious Mughal state took

away something like half the agricultural produce, there was little incentive to improve the land. Despite their vigorous trade, the merchants hid their wealth for fear of the tax collector.

There is no easy answer to the problem that the country was prosperous and the people were poor. One obvious explanation is that in an overpopulated country there is plenty of cheap labour. When the supply of labour is elastic, it always seems more economical to hire people than to invest in machines. This was true in the eighteenth century and it is true today. An English observer wrote in 1807, 'In India it is seldom that an attempt is made to accomplish anything by machinery that can be performed by human labour.'

Having said that, it is important to remember that 250 years ago there did not exist the great disparities in income that exist today between nations. According to Paul Bairoch, the difference between Europe and India (or China) was 1.5 or 2 to 1. The economic fortunes of England and India began to diverge in the nineteenth century. India remained slow and England experienced an industrial revolution. This is not because India was a colony of England, but because England had achieved the preconditions for industrialization—it possessed a variety of social, political, and economic institutions, attitudes and values, which permitted it to respond to technological opportunities.

Thus, I return to the original question: If we were once rich, why are we now poor? Following my grandfather's advice, I went to meet my uncle Sat Pal. He had always been my grandfather's favourite. He came from Ramnagar, the village where the English forces had won the decisive battle against the Sikh army in 1849, paving the way for a hundred years of British rule in Punjab. Sat Pal went to our local Dayanand Anglo-Vedic School and later to the Government College in Lyallpur, where he won all the prizes. My grandfather used to dream of a brilliant career for him until, one day, to his horror, he discovered that Sat Pal had become a Marxist. It was a great blow to our family, whose bourgeois hopes of prestige and wealth were shattered.

After Independence, Sat Pal became a respected labour leader in Cheharta, near Amritsar. He was loved by the workers and feared by industrialists. Welcoming me into his austere two-room home, Sat Pal painted the most devastating portrait of British colonial rule. The English began by robbing and plundering soon after they took over Bengal in 1757, he said. Their Lancashire mills crushed our handloom textile industry and threw millions of weavers out of work in the nineteenth century. As a result, our textile exports plunged from a leadership position (before the start of Britain's industrial revolution) to a fraction. Simultaneously, the indigenous banking system, which financed these exports, was also destroyed. Since the colonial government did not erect tariff barriers, Indian consumers also shifted to cheaper English mill-made cloth and millions of handloom workers were left in misery. In the process, British colonial rule 'deindustrialized' India, and from an exporter of textiles, India became an exporter of raw cotton. Sat Pal quoted Sir William Bentinck, a contemporary observer, who had noted that 'the bones of the cotton weavers were bleaching the plains of India'.

I was about to interrupt my uncle when Vimla, his attractive Kashmiri wife, entered the room with two steel tumblers of buttermilk. She too was an ardent activist, and was now a member of the state legislature. They had met in Lahore during their heady student days in the 1940s. In their charmed leftist circle, Vimla was admired for her good looks, her deep convictions, and her glamorous background. Her father worked for the BBC. Her mother had been trained in Italy in the Montessori teaching system, and taught at Sir Ganga Ram College. They used to meet at the India Coffee House and listen to the poetry of Iqbal and Faiz Ahmed Faiz. It was something of a coup, I thought, that he got her to marry him when she must have been coveted by so many.

As we drank our buttermilk, Sat Pal turned to agriculture. Britain taxed the Indian farmer heavily. It changed the old land revenue system to the disadvantage of the farmer, who had to pay revenue whether or not the monsoon failed. Agriculture lost its capacity to generate savings and a series of famines followed in the bad years in the last quarter of the nineteenth century. The worst one, in 1896-97, affected ninety-six million people and killed an estimated five million. Food also declined in areas where jute, indigo, cotton, tea, and coffee plantations were set up by the Europeans. Although these cash crops were profitable, the surpluses remained with the Europeans who transferred them to England. The railways commercialized the food crops by moving them over long distances and the enlarged national market sucked away the surpluses, which the peasants had earlier stored for the bad years. Thus, agricultural production remained stagnant for a century.

After paying the cost of its huge imperial establishment in India, the British government transferred its surplus revenues back home. Since India consistently exported more than it imported in the second half of the nineteenth century and early twentieth century, Britain used India's trade surplus to finance its own trade deficit with the rest of the world, to pay for its exports to India, and for capital repayments plus interest charges in London. According to Sat Pal, this represented a massive drain of India's wealth—8 per cent of our gross national product was transferred to Britain each year. Thereby, Britain impoverished the Indian masses, and we financed its industrial revolution.

'In that case,' I said, 'now that we are free and England has lost its colonies, India will become richer and England will become poorer. Is that right?' He nodded. My uncle had put forth the classic nationalist case for India's poverty during the colonial period. It was compelling. Sat Pal and Vimla's selfless life of integrity and simplicity also left a deep impression on me. After lunch, Vimla brought out an album of photographs of their younger days. One of the pictures was taken in a Bengal village. It showed Sat Pal and Vimla, two idealistic faces, helping out during the terrible famine in 1943. Another photograph showed Vimla in Prague in 1947, where she had gone to attend the first World Youth Festival as leader of the All India Students Federation. There was triumph in her eyes

because she had been elected vice-president of the World Federation of Democratic Youth. Her face conveyed the wonderful confidence that she must have felt as a youth leader at the peak of the international communist movement. At that moment she had every reason to believe that right was on her side and communists would rule the world one day. I thought of that spring day in 1968 when Soviet tanks had moved to crush freedom in Prague as I looked again at Vimla's happy face in the picture.

My meeting with Sat Pal and Vimla spurred me to read economic history and I found that the scholars mostly confirmed my uncle's classic analysis of India's poverty. Britain's trade policies, they agreed, had encouraged the import of manufactures and the export of raw materials. And by heavily taxing the farmer, Britain contributed to the stagnation of Indian agriculture.

As the years went by a new generation of historians emerged who began to challenge the classic picture. These serious scholars expended great time and effort interpreting the historical data. One of them concluded that the land tax had not been exorbitant—by 1900 it was only 5 per cent of the agricultural output, which was less than half the average per capita tax burden. Another agreed that there had been a 'drain of wealth' from India to Britain, especially in the nineteenth century, but it was only 1.5 per cent of GNP every year. The revisionist historians argued that India's payments to Britain were for real military and civilian services and to service capital investments (which increased India's wealth). Also, the overhead cost to maintain the British establishment—the so-called 'home charges'—was in fact quite small. If India had maintained its own army and navy it might have had to spend more money. They conceded that India did have a balance of payments surplus which Britain used to finance part of its deficit, but they said that India was partially compensated for it through the import of gold and silver into India. Only a part of that precious metal was minted for coinage and most went into private Indian hands. Indians have always been mesmerized by

gold and silver. Even the Roman, Pliny, had observed this, and had called India the 'sink of the world's gold'.

The revisionists' most serious challenge was to the nationalist thesis that Britain had deliberately deindustrialized India. They agreed with my uncle that Indian industry declined in the nineteenth century. They calculated that India enjoyed 17.6 per cent of the world's industrial production in 1830, while Britain's share was 9.5 per cent. By 1900 India's share had declined to 1.7 per cent while Britain's had grown to 18.6 per cent. But this decline, they argued, was caused by technology. The machines of Britain's industrial revolution wiped out Indian textiles, in the same way that traditional hand-made textiles disappeared in Europe and the rest of the world. Fifty years later Indian textile mills would have destroyed them. India's weavers were, thus, the victims of technological obsolescence.

Handlooms all over the world gave way to mill-made cloth, and weavers everywhere lost their jobs no less than in India. Unfortunately, there were more weavers affected in India because India was the largest maker of textiles in the world. This is not to take away from the great misery and enormous suffering caused by their impoverishment. If the British Raj had been sensitive to their plight, it might have erected trade barriers in India. This might have cushioned the impact and Indian hand-made textiles might have survived for a period. (It is true that the British government did put up barriers in eighteenth century England against Indian textiles.)

After 1850, Indian entrepreneurs began to set up their own modern textile mills. By 1875, India began to export textiles again and slowly recaptured the domestic market. In 1896, Indian mills supplied only 8 per cent of total cloth consumed in India; in 1913, 20 per cent; in 1936, 62 per cent; and in 1945, 76 per cent. Both British and Indian capitalists made large profits during the First World War. While the British businesses remitted their wartime profits to England, Indian businessmen reinvested theirs in new industrial enterprises after the war. Thus, Indian industry began to grow rapidly after the war.

G.D. Birla, Kasturbhai Lalbhai, and a dozen other enterpreneurs built significant industrial empires in the inter-war years. Manufacturing output grew 5.6 per cent per annum between 1913 and 1938, well above the world average of 3.3 per cent. The British government finally provided tariff protection from the 1920s. This helped industrialists to expand and diversify. The Birlas went beyond textiles and jute into sugar, cement, and paper. Others diversified into shipping (Hirachand), sewing machines (Shri Ram) and domestic airlines (Tatas).

By the Second World War, the pre-First World War supremacy of British business was broken and Indian entrepreneurs were now stronger and in a position to buy out the businesses of the departing foreigners. The share of industry in India's GNP doubled from 3.8 per cent (in 1913) to 7.5 per cent (in 1947). The composition of India's trade also changed—the share of manufactures in its exports rose from 22.4 per cent (in 1913) to 30 per cent (in 1947), while the share of manufactures in imports declined from 79.4 per cent to 64 per cent. Industrial employment, however, did *not* grow in tandem. Modern industry could not make up for the loss in jobs suffered by handloom weavers.

Indian nationalists have exaggerated the economic importance of India to Britain. They thought that the Indian empire was hugely profitable. They got the idea from Cecil Rhodes, the great imperialist of the nineteenth century, who used to say, 'The Empire is a bread and butter question . . . [we] must acquire new lands for settling the surplus population of the country, to provide new markets for the goods produced in factories and mines.' Churchill was a leading exponent of this view in the twentieth century. Conservatives certainly believed it, but even the left wing of the Labour Party thought so. Bevin told the House of Commons: 'If the British Empire fell . . . it would mean the standard of life of our constituents would fall considerably.' The truth is that the Indian colony was not terribly profitable to Britain. After the crude period of exploitation in the eighteenth century was over, Britain's rising prosperity in the next century owed more to its free trade with the 'new world' and to its investments in America. If there was a 'drain', it was by the transfer of dividends by English companies from America. Certainly, a few Englishmen became very rich from India—the owners of the tea and indigo plantations, the shareholders of the East India Company and other commercial firms, the employees of the managing agencies, the railway builders, the civil and military personnel, and others connected with India. But the profit to Britain as a whole was meagre.

My uncle's prediction also turned out to be wrong. Britain did not become poorer after losing India. Instead, it enjoyed shocking prosperity in the 1950s and '60s, at the very time that it was losing its colonies. So did France, Holland, and other colonialists. The fact is that Britain's colonial prosperity was not founded on the exploitation of India. In the end, whether Britain impoverished or enriched India is really an academic question. What is more relevant is why the forces of global capitalism in the second half of the nineteenth century and early twentieth century did not release widespread growth and development in India, as they did, for example, in Japan. The rapid building of railways and canals and the simultaneous expansion of foreign trade should have acted as a strong engine of growth. India had an experienced merchant class which had begun to develop modern industry.

By 1914, India had the world's largest jute manufacturing industry, the fourth largest cotton textile industry, the largest canal network, the third largest railway network, and 2.5 per cent of world trade. Fifty years earlier, Karl Marx had predicted that the introduction of railways and modern factories into India would transform the subcontinent. Why didn't it happen? India remained largely non-industrial and extremely poor at the time of Independence. Modern industry contributed only 7.5 per cent of national income at Independence, and employed barely 2.5 million people out of a population of 350 million. Why didn't an industrial revolution occur?

My father's English boss and other colonial officials used to blame India's poverty on the other-worldly spirituality of Hindu

life and its fatalistic beliefs. Max Weber, the German sociologist, who admired the richness of India, attributed the absence of development to the caste system. Gunnar Myrdal found that India's social system and attitudes were an important cause of its low productivity, primitive production techniques, and low levels of living. According to Myrdal, poor work discipline, contempt for manual work, lack of punctuality, alertness, and ambition, low aptitude for cooperation, and superstition were the result of inhibiting attitudes. These were compounded by unfavourable conditions, such as a debilitating land tenure system, low standards of efficiency and integrity in public administration, weak participation of the people in local affairs and a rigid and unequal social structure. Myrdal believed that these pre-modern attitudes and institutions had to be attacked directly, primarily through education, and India could not wait to erase them as a by-product of growth and income. The only agent that could break the forces of stagnation, he felt, was the Indian state. But the Indian government would not be able to do it, he concluded, because it was a 'soft state'. It would not be able to impose the social discipline that this required. He said this in 1967, and the Indian state has become even 'softer' since then.

Deepak Lall, another economist, has similarly explained economic stagnation in terms of a low-level 'Hindu equilibrium' around the caste system, which bought stability in the context of political warfare, monsoon failure and climatic uncertainty, labour shortage, and an undervalued merchant class. Lall argues that 'India's social organisation and agriculture system were a second-best Pareto-efficient response to its specific environment.' David Landes, the economic historian at Harvard, has recently reopened the politically incorrect controversy relating to geography and the weather. He blames India's enervating heat. For this reason, rich countries lie in temperate zones and the poor in the tropics and semi-tropics. Although air-conditioning and tropical medicine, he says, have levelled the playing field somewhat after the Second World War (and made possible the prosperity of the American South) the

unpleasant truth is 'that nature like life is unfair, unequal in its favours' and 'geography brings bad tidings'.

I am always sceptical of easy cultural or geographic explanations. In my experience, successful Hindu entrepreneurs can be both extremely religious and aggressive in business. The Indian farmer responds quickly to market-based incentives, as the green revolution testifies. Brahmins will plough their own land in traditional Uttar Pradesh if they have to, and Rajput Thakurs will shed their feudal ways for the sake of a commercial opportunity. Moreover, there are substantial non-Hindus in India and these communities have also been stuck in the same rut of stagnation. Other Asian countries, such as China and Indonesia, were equally backward, but they had no 'Hindu equilibrium' to explain away their stagnation. Tropical, enervating Singapore has achieved Western levels of prosperity despite the unfairness of nature.

Economic historians no longer seek explanations of India's economic backwardness in culture—the other-worldly values of the Hindus or the immobilizing effects of the caste system or the conservative habits of the merchant caste. They look to economic factors that motivate a businessman to invest in a business—the size of the market, the capability of suppliers, the costs of production, the distribution hurdles, the availability of technology, and the state of competition. Amiya Kumar Bagchi argues that it was lack of effective demand that limited business opportunity. Indians were just too poor, he says, to buy modern goods and services. With weak purchasing power the market remained tiny, and this prevented entrepreneurs from investing. I am not convinced, however, that the lack of demand provides a sufficient cause. If the domestic Indian market was small, the entrepreneur could have supplemented it by producing for overseas markets. Morris D. Morris says that backwardness is the result of supply constraints. An Indian entrepreneur, he feels, was beset by formidable uncertainties because of a shortage of technology, skilled labour, and capital—all of which raised his cost of production. According to Rajat Ray, the Indian businessman did not export because he could

only make inferior quality products, which were not acceptable to the world market. And he did not have the technology to make superior products. In his view, the single biggest failing lay in the technological backwardness of Indians. Ironically, a hundred years later, the same situation persists.

Thus, there is no easy answer to India's backwardness. Unlike the nationalists, I do not believe that there was a British conspiracy to deliberately underinvest in India, or to sabotage Indian business interests (despite G.D. Birla's difficulties with the Scottish jute lobby). The nationalist thesis is weak because British business was not a homogeneous force. Bombay's textile mills in the nineteenth century were built with credit, technical assistance, and machines from the British textile machinery makers even when these mills were a competitive threat to Manchester's mills. Burn and Co., a full-blooded European company, had no hesitation to start making steam vessels in India when it found it cheaper than importing them from Britain. Businessmen invest whenever and wherever profit is to be made and their decisions have little to do with nationalism or racial considerations. Companies only look to their bottom line and do not fly the flag of their parent countries.

What then is the verdict on British rule in India? Did the British impoverish India? There is no question that in the eighteenth century the British plundered and looted India's wealth, as all conquerors have done in history. The more important historical question is if Britain systematically exploited its colony by creating ongoing institutions that were to India's detriment. This has to do with the nature and theory of colonialism. I have already said that the British did not deliberately deindustrialize India. It was the industrial revolution that threw millions of weavers out of work. It would have happened any way when the new technologies reached India. British government policy could have cushioned the impact by erecting trade barriers, but protecting handlooms would have been a temporary palliative at best.

Odd as it may seem, Britain did not 'exploit' India enough. Had it made the massive investments in India that it did in the

Americas, India would have become prosperous and a much bigger market for British goods. An impoverished India was certainly not in Britain's economic interest. 'The tragedy is that the failure to develop India was a great loss for Great Britain as well as for India; a richer India would have been even a better customer, a better supplier, and a firmer basis of Empire.' Our nationalists have failed to comprehend that capital is a progressive and positive force, however exploitative it may appear. Marx understood this. He knew that capitalism is the only efficient way to accumulate capital, make investments, raise output, and increase productivity. Even today, many Indians, with their phobia of multinationals, do not understand this.

Britain's main failure was to remain detached when it came to development and economic growth. Unlike the Japanese government following the Meiji reforms after 1868, which actively promoted the country's development, Britain neglected India. It did not actively encourage investment either by Indians or by Englishmen. It did not try to educate the Indian masses—83 per cent of Indians were illiterate at Independence. The British education system in India produced only a thin upper crust of extremely well-educated Indians. The Japanese (and the Koreans), at the same time, concentrated equally on making their masses literate. By 1950, more than half of Japan's and Korea's populations were literate. Although it built railways and canals, Britain made no effort to provide credit to entrepreneurs or farmers in a capital-starved country. Nor did it sufficiently protect the infant Indian industry that came up in the nineteenth century (although it did from 1921 onwards). Then 'no colonial power helped its colony to industrialise'. The crude fact is that the British did not understand how to make an economy grow. They only knew how to keep the budget balanced.

Indian nationalists have overestimated Britain's impact on India's wealth and poverty. To be sure, there was a 'drain' of wealth from India to Britain, especially in the nineteenth century. They used our export earnings to finance the transfer

of our wealth to Britain rather than reinvesting the trade surplus in India. It is also true that India progressively became an exporter of raw materials and importer of manufactured products. India's leaders took this to mean that foreign trade and foreign capital were responsible for our poverty, and closed our economy and pursued a policy of self-sufficiency. In the process, they wasted an opportunity. They forgot that India had a centuries-old tradition of trading before the British came, and that it had once enjoyed enormous prosperity through exports and imports. For these and other reasons, we became pessimistic about our ability to compete in the world economy and regain our historic pre-eminence as a great trading nation. We closed our doors. And our share of world trade declined from 2.4 per cent in 1947 to 0.4 per cent in 1990. We learned the wrong lessons from history.

6

The Paper Route

> In democracies nothing is more great or more brilliant than commerce: it attracts the attention of the public, and fills the imagination of the multitude; all energetic passions are directed towards it.
>
> —*Alexis de Tocqueville*

Our family moved to Washington DC in the mid-1950s when the Indian government posted my father as a part of a small team of engineers to negotiate the division of the Punjab rivers with Pakistan. The World Bank had offered to mediate the water dispute because it was funding development of river basins. We arrived in America during the heyday of the Eisenhower age. The country was in the midst of unparalleled prosperity. The American middle class was absorbed in the serious business of collecting bigger appliances and bigger cars for its bigger homes in the mushrooming suburbs. I was put into a typical American high school a short bus ride away from our apartment hotel on 16th Street. My school was 80 per cent 'white' when I arrived and 80 per cent 'black' when I left three years later. Each day I used to lose a white classmate and gain a black classmate, and I witnessed the profound demographic

revolution that led to the destruction of the American city and the triumph of suburbia.

Like many American kids, I got a job delivering newspapers before school. Each morning I would walk my route, distributing the *Washington Post* from house to house. I had to get up at 5 a.m., and in the freezing winter cold, that required a lot of will power. But I knew that my customers depended on me. There were other things that I had to bear in mind. When it rained or snowed, I had to cover the newspapers so that people didn't have to struggle with wet pages. I had to hold my tongue even if they did not pay me on time.

My paper route taught me that the customer is the most important person in America. No matter how big you are, you have a customer. I also learned that America was truly the land of opportunity. Not only because there were jobs available, but because a hard-working person could hope to rise to the top in every field. Almost everyone believed that the best person would get ahead (except, perhaps, some of my black classmates who lived on 24th Street). Americans were positive and optimistic. They did not think, as we did in India, that you had to snatch something from your neighbour in order to succeed. Both could get ahead, for there was enough to go around. The consistently high growth of the economy since the end of the war had reinforced this belief. Americans were thus less 'political'. In contrast, middle-class Indians at this time had to put up with enormous scarcities of public and private goods; they were forced to cultivate 'contacts' and 'influence' for their most basic needs. They had to become 'political', for either my neighbour's son or mine would get into a good school—there were not enough desks for both.

In my school in Washington I was surprised that we had to attend a class called 'shop'. The classroom was filled with lathes, tools, and machines, and we learned to work with our hands. We learned to repair a window, make a table or unclog a sink. At the end of the year, we had lost our fear of technology. We had understood Bronowski's dictum that the world is understood through the hand, not the mind—the hand

is the cutting edge of the mind. It explains why many Americans are 'tinkerers'. This is a powerful idea for India where we have traditionally had contempt for manual labour. It goes back to our caste system. The lowest caste Shudras were denied knowledge and worked with their hands, while the three higher castes worked with their heads. Hence, we do not produce tinkerers in India. A tinkerer combines knowledge with manual labour, and thus you get innovation. Our entrepreneurs, who come from the upper castes, are not innovators partly because they are shy of technology. This may be one of the reasons why we failed to create an industrial revolution in India.

Three years later, my family returned to India as the river dispute was settled peacefully across the table. The successful outcome was in part due to the far-sightedness of the World Bank and its major donors, who agreed to finance irrigation development in both the countries. It was a rare experience for the two hostile countries to resolve a conflict without a war. Since I was in my final year in school at the time, my parents agreed to let me stay behind. Just as I was getting ready to go back home six months later, I heard to my happy surprise that I had won a scholarship to Harvard University. So, I stayed on.

My most vivid memories of Harvard are of encounters with ideas rather than persons. Over time the memory of persons has grown paler, whereas the ideas have grown, and become richer. One of the first ideas I encountered at Harvard was that the 'nation' was relatively new in human history, although countries had existed for a long time. The United States, I began to realize, was the first modern nation, the country where the notion of modernity had originated. For the first time, a people had consciously decided to become a nation. The French, during their great revolution, followed the American example. However, they had to deal with a past. So did every other country that decided to become a nation in the past 200 years. The Americans did not have a past. But Americans were also unique because they lived only for the future. We in India got the American idea of founding a nation

via England; but our inspiration was American. This may sound odd to many Indians who contemptuously dismiss America as the land of Coke and McDonald's. Indian seekers of Hindutva and swadeshi should pause and reflect that their search for nationality is as American in its intellectual origins as the dreaded Kentucky Fried Chicken.

The more I lived in America, the more I learned about India. Unlike Americans, our project of nationhood, I realized, has to deal with the difficult terrain of our 'golden past'. It is particularly exhausting because we do not have a homogeneous history. It is a diverse past of many religions, many regions and languages, and many peoples. The Americans solved their problem of diversity by throwing their numerous immigrant communities into the 'melting pot'. Their ethnic immigrant minorities did not form separatist movements; they eagerly embraced the English language and the American way of life in order to get ahead in the land of opportunity. In India, we had historically dealt with our problem of diversity through the caste system. Each new minority had become a subcaste. This solution worked well except when it came to the Islamic immigrants, who were the product of a proud universal religion and were unwilling to be assimilated as a subcaste.

If America is a melting pot, India is a mosaic. A good mosaic has a unity of style, and India's civilization and its way of life has a stylistic unity. Modern India is a product of Hindu tradition, the religion of Islam, and Western civilization. The search for a modern Indian nation has been the overwhelming obsession of the educated Indian for more than a hundred years. And it continues to this day. The first seekers were liberal products of Macaulay's education policy, just as the modern Japanese were products of the Meiji education policy. They critiqued the past; they helped reform society (both Hindu and Muslim); they gave birth to the political movement for Independence, and they brought about a national consciousness and ushered in an optimistic, modern India.

Soon after arriving at Harvard, I was caught up in another sort of optimism. It had to do with the future of the poor

countries, and for a change even the usually gloomy economists were hopeful. They had begun to think that the poor nations could rise out of poverty—and quickly at that. There was even a new and cheerful course in college called Development Economics which tried to capture their hopes. Paul Rosenstein-Rodan and Ragnar Nurkse were among the gurus of this new discipline. Rosenstein-Rodan diagnosed the problem of poverty as a failure of investment. When businessmen failed to invest, he argued, it was clearly the state's job to do so, and he advocated a massive plan of investment by the government to achieve what he called 'balanced growth'. Albert Hirschman, on the other hand, argued that it was better for the state to offer incentives to businessmen to invest rather than do so directly. He had acquired rich, hands-on experience of development in Latin America and he was reluctant to let the government get into business. Limited protection, such as higher tariffs and cheaper credit, were the sort of incentives he had in mind to induce businessmen to invest.

What caught everyone's fancy in those days, however, was the famous Harrod-Domar model, which regarded the problem as one of raising the savings in society and investing them wisely. The model was simple and elegant: growth was a function of the savings ratio divided by the marginal capital-output ratio. Thus, a poor country could accelerate its development if it could raise its savings by means of taxes or foreign aid—no one thought of foreign investment in those anti-colonial days—and invest them in a way that it got the most production out of its savings. India was the favourite laboratory among economists, because it seemed to be following the prescription of Rosenstein-Rodan and Harrod-Domar. Intellectual opinion throughout the academic world held that the state could raise domestic savings and invest them in public sector companies to accelerate economic growth and achieve what everyone called 'the take-off'. Walt Rostow had recently introduced this expression in a book called *The Stages of Economic Growth*. It was the point when domestic savings reached a self-sustaining level. 'The take-off' remained a

fashionable buzz-word throughout my college days. In our optimism, no one spoke about whether an economy would take off, but only *when*.

In India, I later realized, we primarily focused on the numerator, that is, how to raise savings, thinking it to be the essential problem. We ignored the denominator—capital productivity—and it turned out to be our Achilles heel. Indian policy makers naïvely assumed that once the government made the investments, the returns from the capital would come automatically. Their innocent faith in state companies turned out to be altogether misplaced, for the output from the capital invested in the public sector was unacceptably low. There were many reasons for this, the chief ones being the lack of training, autonomy, and accountability of the senior managers in the public enterprises. It was a management failure. A little more realism and a lot more humility among our leaders might have helped in those early days. They could have instilled a stronger bias for profit and efficiency and this would have made all the difference.

Ragnar Nurkse suggested that there was 'disguised unemployment' in the countryside, which represented 'hidden resources' of surplus labour, waiting to be tapped for investment projects. Albert Hirschman added that as the economy gained momentum, latent enterpreneurship would emerge and technological breakthroughs would occur in the market place, representing a different sort of hidden resource. C.N. Vakil and P.R. Brahmanand in India, partially inspired by Ragnar Nurkse's 'disguised unemployment', formulated their 'wage goods' model of development, which Indian policy makers tragically ignored.

Most development economists at the time had an implicit faith in the ability of economic growth to ameliorate poverty. Growth would provide jobs, raise incomes, and 'pull up' the people from poverty, said Jagdish Bhagwati in *The Economics of Underdeveloped Countries*. Despite their optimism, it is surprising that the economists were pessimistic about the ability of poor countries to export. Nurkse argued that the era of export-led growth was over and trade could not be an 'engine of growth'.

Raul Prebisch, the influential economist in Latin America, insisted on import substitution because the terms of trade did not favour poor (Latin American) countries. The number of Indians who were taken in by Prebisch's 'dependency theory' amazed me. This unfortunate proposition of the Argentine economist, which swept the Third World in the 1960s, argued that the poor countries were permanently imprisoned in a state of dependency to the rich countries because of unequal terms of trade. The price of the manufactured goods of the rich countries would continuously rise, Prebisch argued, while the prices of the agricultural commodities would continuously go down. Thus, there was no hope for the Third World. With the rise of the East Asian countries, the world rightly discarded Mr Prebisch's second-rate theory.

There was a mild, non-combative student of economics in Cambridge, England, named Manmohan Singh, who argued for greater openness in trade and for a less controlled economy. He wrestled against Nurkse, saying that even 'the initiation of the process of balanced growth' in Nurkse's closed economy would entail an increase in import requirements which would have to be paid for by exports. He went on to rebut the prevailing pessimistic view about the poor countries' export prospects by means of detailed empirical data. He showed that India's 'stagnation of export earnings was partly a consequence of faulty economic policies', and not because of 'dependency theory'. In the intellectual climate of the early 1960s, this low-key plea for reorienting the underdeveloped economies towards exports was lost as an aberration. Japan was the only example at the time of consistent rapid growth through exports among developing economies. Experts said that it too had practised import substitution for a long time and that too with extensive government intervention.

Thirty years later, the same mild-mannered economist got a chance to practise what he had preached. In 1991, Manmohan Singh found himself finance minister of India, where he acquitted himself brilliantly, using his low-key approach to his advantage, and ushered in the famous reforms.

The Far East countries proved the tribe of development economists of the 1950s and '60s wrong. Beginning with Japan, and followed by the four dragons—Korea, Taiwan, Hong Kong, and Singapore—East Asia embarked on a strategy of penetrating world markets with the export of low-cost manufactures, and they were gloriously rewarded by the enormous expansion in world trade in the '50s and '60s. Brazil too seized this opportunity and prospered in the process. However, the rest of the Third World missed the bus. The economists, it seems, turned out to be hopelessly optimistic about the ability of poor countries to transform their economies through investment in import-substituting manufactures and overly pessimistic about their ability to export.

The economists also made the great blunder of believing that the state could become an entrepreneur. India and much of the Third World created state-owned companies which turned out to be hopelessly inefficient. These companies did not provide adequate returns and they did not add to the stock of domestic savings. Instead, they began to lose huge amounts of cash and became a drag on the economy. Import substitution led local businessmen to reinvent the wheel, resulting in the manufacture of poor quality, high-cost goods without any reference to comparative advantage. At the same time, severe controls were placed on the private sector in many Third World countries. The desire for balanced growth and the need to ration scarce foreign exchange motivated the governments. However, this vastly reduced competition. Ironically, these and other state interventions ended in making the poor countries wasteful of capital. The investments did not pay off, their capital-output ratio was poor, and massive corruption was an unfortunate side effect.

In the end, the hope of rapid economic growth did not materialize. True, economic growth rates were better than they had been before the Second World War. After the war, the developing countries did grow—on average around 4 per cent per annum—when they had been virtually stagnant in the first half of the century. This rate was also better than the 1-2 per

cent growth of the Western countries in the nineteenth century, at a comparable period of their industrial revolution. But the 4 per cent growth was neutralized by population growth of 2.5 to 3.5 per cent, leaving around 1 per cent as real growth. This certainly was lower than what everybody dreamed of, and it was much lower than the Far East economies, which grew in excess of 5 to 6 per cent (net of population growth) in the 1970s and '80s.

The experience of Japan and the Far East countries turned out to be far more hopeful. They showed to the world that not only could they grow rapidly but also that they could ameliorate poverty at the same time. Their secret lay partly in their investments in education and health, which helped to create the initial conditions of greater equality as they undertook rapid industrialization. They understood that primary education (especially of girls) and primary health care do more for the poor, not only because they put a brake on population growth but because they place them in a better position to take advantage of the job opportunities that come with economic growth. Thus, prosperity is better spread across the population. Amartya Sen has propagated this idea of investing in human development with a missionary zeal; it may have won him a Nobel Prize, but it has not spurred the Indian state to act. The neglect of primary education remains our single biggest failure.

Like most of my classmates at Harvard, I was an unrepentant liberal. In the 1960s, liberals favoured government intervention to fix market failures, create jobs, control prices, and create a welfare state. My liberal classmates were enthusiastic supporters of FDR's New Deal and Kennedy's vision of a compassionate society, which Lyndon Johnson took over after Kennedy's tragic death. In Europe, liberals of our persuasion were socialists or social democrats. Liberals were left of centre in America, but in the India of the '60s, we were smack in the centre. We embraced wholeheartedly Nehru's vision of state-led industrialization, redistributive taxation, controls on the private sector—all this eventually to wipe out poverty.

One of our liberal heroes at Harvard was John Kenneth

Galbraith. Galbraith was lean and tall, witty and provocative, but he was also dogmatic and arrogant. He was already a celebrity, having captured America's imagination with *The Affluent Society*, but I found him a bad teacher. He used to mumble unintelligibly in class and did not care for his students. Serious economists ignored him, but his ideas held sway over my classmates and the liberals of our generation.

Galbraith used to dwell on the failings of market capitalism. Competition was at best imperfect in the real market place, he would say, and consumer sovereignty was a myth. Large companies set prices, contributed to cost-push inflation, and manipulated consumers through advertising to buy needless products. Giant corporations, with an army of skilled experts, exercised vast economic and social power, not in the community's interest but in their own. This made contemporary Western society rich in private goods but poor in public goods such as mass transport, public health, and low-cost housing and good schools for ordinary people. The remedy for these ills was an enlightened and interventionist government whose duty it was to fill the gap in public goods, thus ensuring a more balanced society that served the common good rather than the corporations and the rich.

John F. Kennedy appointed Galbraith ambassador to India after he became President, and I went to meet him in the summer of my sophomore year when I came home to Delhi on holiday. He generously invited me to lunch, along with several other young people. I was awed by the grand dining room of the opulent American embassy, recently designed by Philip Johnson. I had expected Galbraith to be happy at the prospect of living in a country that was practising his ideas. Instead, I found him gloomy and ambivalent. During lunch, he expressed serious concerns about excessive state controls on the Indian economy. He confessed that it might be better to have more private enterprise in a country at India's stage of development. His own ideas, he felt, were more suited to an affluent society. Galbraith's grim remarks that afternoon reinforced my growing doubts about Nehru's socialism, and the innocent lunch became

a turning point in my thinking.

The celebrated issue of 'planning versus the market' had been intensely debated around the world in the 1930s and '40s. The worldwide consensus that emerged in the next decade supported enthusiastically India's experiment in planning. The most famous debate had taken place, curiously enough, among a bunch of Austrian economists. Those supporting planning, Oskar Lange and Abba Lerner, had pointed to the failures of the market and its inability to ensure perfect competition. They had argued that by planning, and with the use of computers, they could ensure that the right products were produced in the correct quantities and thus stimulate perfect competition. Their critics, Friedrich Hayek and Ludvig von Mises, however, had retorted that the most powerful computers of the planners would never be able to acquire the billions of pieces of information on constantly changing consumer needs and preferences and marry them to the resources of society, the production processes, and the technologies. Even if they got the information, they would not be able react to it as speedily as the market. Moreover, in a planned economy, the factory managers would not have the incentive to provide truthful and rapid information to the planners. Since they were evaluated based on how much they produced, they would try to corner raw material to ensure their production targets were met (to the detriment of other factories). As such, the planned economy would have enormous waste and inefficiency compared to the market. Human self-interest in the market economy eliminated this inefficiency.

Like all undergraduates, I read John Locke, Hobbes, and Mill in abundance, and I found my interest turning to philosophy. After reading Hume's *Treatise of Human Nature*, I switched my major to philosophy at the end of my sophomore year. I was quickly rewarded with the elegant lectures of Quine on logic. More than the famous names, I was drawn to a shy and lanky professor named John Rawls who had recently arrived at Harvard. It was rumoured that he had won tenure on the basis of a single, five-page paper called 'Justice as Fairness',

having been preferred by the selection committee over many famous and established philosophers whose bibliographies ran into dozens of pages of books and scholarly articles. Rawls went on to become the most influential moral and political philosopher of his generation. His five-page paper became a famous book called *A Theory of Justice* which transformed the debate on equality, liberty, rights, and the role of the state. His selection was as much a tribute to Harvard's ability to take risks with unknown but potential greats. Rawls also changed my way of looking at the world. Before I met him, I had a typical, unthinking reaction to issues, but his lectures made me question my beliefs, especially my uncritical acceptance of Marx's notion of equality.

Rawls walked into class one day and asked us to play a thought game. We were to imagine that we were living in a hypothetical state of equality. We were to assume that we were all free, rational, self-interested people who were ignorant of our place in society—of our class, income, and status. Nor did any of us know our fortunes in nature's distribution of assets and abilities, such as intelligence, strength, and beauty. Lastly, we were to assume that none of us suffered from an excess of envy. With this 'veil of ignorance' we were asked to agree to a set of principles of justice with which we would build and appraise our institutions. Rawls contended that we would agree to two principles: first, that each person should have the maximum liberty compatible with equal liberty for others. Second, we would opt for equality unless the inequality helped everyone, including the worst off, and that everyone had a chance to reach to the top.

Having agreed to the two principles in the hypothetical circumstances of a social contract, one practical consequence of his second principle is that in practical terms, as a worker I would consent to the president of the company earning more than me as long it motivated the president to earn more profit for the company and I got a bigger bonus or a higher salary as a result. The greater benefits earned by a few could be justified, I realized, if the inequality improved the situation of

the worst off. Although Rawls's starting point was egalitarian, he had found a moral basis for inequality. His great insight was that free individuals would voluntarily consent to inequality in certain circumstances. This was a far more morally satisfying basis for inequality than Bentham's or Mill's utilitarian appeal to improving the common good or on grounds of efficiency (the company's performance). A moral justification based on consent seemed to me superior to one based on 'the greatest good for the greatest number'. In an oversimplified sense, Rawls had strengthened the foundations of a market-based liberal democracy, which strives for an equality of opportunity but not an equality of result. In my eyes, Rawls had diminished the attractiveness of socialism. Most of us had become socialists because we were repelled by the inequality of capitalism. Having said that, it is important to remember that Rawls's model only works in a genuinely open society. In the real world no society (not even America) is completely open. The key is to try to ensure that everyone has an equal start in life and can hope to rise to the top. Thus, an 'open' primary school system is essential. Amartya Sen and others have also pointed out that equality is good in itself; there are other reasons to have it, such as individual self-esteem.

Despite my concerns with distributive justice, I have come to believe that alleviating poverty is more important than achieving equality. Improving the income distribution in a society should be an instrument for enabling the poorest and the most unfortunate to rise above the poverty line rather than achieving equality per se. My experience in an American high school has taught me that a decent public (non-private) education system, open to the poorest child, will do more for equality in society than all of Nehru's socialist programmes. Capitalist America has done more in a practical sense for equality—by providing equality of opportunity—than many socialist or even social democratic Western countries. Even in an elitist place like Harvard, half my classmates were on scholarship and came from ordinary backgrounds. Surveys show that half the presidents of the largest American corporations

come from modest backgrounds. Every family in America, from the richest to the poorest, believes that it belongs to the middle class (with the notable exception of the blacks in the ghettos). Inequality has grown in America over the past twenty years, but opportunities have not diminished.

I have found it frustrating that Indian intellectuals and political leaders are so anti-American that they are unable to perceive these qualities of America. The American education system has many flaws, but it is far fairer (and more creative) than most systems. Every time I suggested looking at the American education system, Indian intellectuals and policy makers dismissed me. This was also one of Nehru's blind spots.

One of the best books that I read at Harvard was Alexis de Tocqueville's *Democracy in America*, which opened my eyes to the vibrancy of community life in America. I had also experienced it as a schoolchild in Washington, when my parents had to attend the Parents and Teachers Association (PTA) meetings. At these PTA meetings, my parents got to know their neighbours. They talked about how to improve the school. Their talk soon turned to garbage on the streets, the local bus service, the condition of the roads, and other community concerns. I witnessed local democracy in action. Social scientists refer to this as 'social capital'. De Tocqueville, a Frenchman who visited America in the 1830s, wrote that Americans were 'joiners': they joined all manner of local organizations (unlike the Europeans), and this was the strength of American democracy. In contrast, Indians have a poor community life. Our social interactions are limited to the family and the caste. Perhaps this is why our streets are dirty when our homes are spotlessly clean. Mahatma Gandhi understood this, and he tried to instil civic sense in his fellow citizens, but he failed. We finally amended our Constitution in the 1990s to usher in local democracy. Although state governments have been reluctant to give up power, panchayati raj has increasingly become real. Today we have three million local legislators in our half a million villages (and one million are women). Madhya Pradesh has among the most vibrant

ones, where Digvijay Singh, the chief minister, has pushed responsibility of schools down to the local panchayats in the manner of the American school district.

The great thing about an American liberal education is that it allows an undergraduate the freedom to explore many subjects. In my junior year I was drawn to Harvard's famous Sanskrit department, which had produced the great Harvard Oriental Series, consisting of more than a hundred volumes of Sanskrit scholarship and translations by the world's leading scholars, similar to Max Mueller's *Sacred Books of the East.* Filled with reverence and awe, I was examining a leather-bound set on the shelves of Widener Library when I met Daniel Ingalls, the legendary professor of Sanskrit. He was reputed to be aloof and crotchety, but he agreed to let me join his elementary Sanskrit class, warning me that it was not going to be easy. We raced through Panini's elegant grammar rules in the first six weeks, using Perry's primer and Whitney's grammar, and soon began reading selections from *Kathasaritsagara, Hitopadesha*, Rig Veda and *Manavadharmashastra* from Lanman's reader. We were half a dozen students and the class used to meet in Ingall's Widener office, where he presided like an old schoolmaster. He used to scold and insult us each time we broke one of Panini's rules. When we were good, he would reward us by reading from his forthcoming translation of Vidyakara's love poetry. As he read, his mood would change. He would start to smile, and occasionally his eyes shone with a lover's guile.

Ingalls was right. It turned out to be a difficult course, and I discovered that either I could read Sanskrit or I could do all my other courses. Reluctantly, I dropped Sanskrit after the winter semester. Ingalls was angry, saying that he had wasted three months on me. He tried to paint a romantic picture of the life of a Sanskrit scholar, but I was unmoved. My parents, on the other hand, were relieved that I had given up my love affair with Sanskrit. The idea of their son going all the way to Harvard to study Sanskrit was too bizarre.

If Ingalls fed my illusions about India, Henry Kissinger pricked them. I had substituted Sanskrit with Government

180, which was the basic course in international relations. Henry Kissinger was not as famous at the time, but he was already a provocative name and his lecture course attracted over a hundred undergraduates. Kissinger taught us that the pursuit of national self-interest was the only legitimate course for a nation in its relations with other countries. When all nations pursued their interest it resulted in predictability, balance of power, and eventually peace in the world. There was no room for morality or altruism. Metternich was Kissinger's hero and model, and because of him and Talleyrand, Castlereigh, and Czar Alexander at the Congress of Vienna in 1815, the nineteenth century had been a 'century of peace'. The rules of the game were governed by realpolitik and political leaders played by these rules. Kissinger taught us that diplomacy was best conducted in secret, because media and parliaments in democracies tended to confuse the issue with moral considerations, and this led nations to take irrational positions that did not necessarily further their own interests.

For innocent and idealistic American undergraduates, especially during Kennedy's presidency, this amoral lesson was difficult to stomach, especially as it came from a 'wily European'. (Kissinger's thick German accent was particularly hard on us, and it emphasized his Europeanness.) To my discomfort, Kissinger used Nehru as an example of how *not* to conduct international affairs. He felt that Nehru injected a dangerous element of morality and idealism in international affairs. Besides, he said, moralizing was not pleasant to behold—no one liked being lectured to—and this was why India was not popular among the practitioners of power, although Nehru was a hero to the post-war world. Nehru was irresponsible, Kissinger said, in not promoting his own country's interest and in leaving India vulnerable. I wasn't sure what he meant. If he meant that India was too trusting of the Chinese, I think he was right. And history would soon prove him correct. If he meant that India's interest lay in aligning itself with America and not remaining non-aligned, that is a debatable issue. Kissinger concluded his lecture by saying that 'it is dangerous to put dreamers in power'.

Henry Kissinger went on to become secretary of state and to greater glory. He had the unbelievable fortune of being able to practise what he had preached as an academic. But he was not good for India. At the best of times the relationship between the two largest democracies had been prickly, but in the early 1970s it plunged to its depths with Nixon and Kissinger's notorious 'tilt' towards Pakistan, which further pushed India into the chilling embrace of the Soviet Union.

As I look back on my four years at college, I am shocked that we were so concerned with the distribution of wealth in those days that we ignored the whole subject of wealth creation. Perhaps, it was because the Western economies were in the midst of unprecedented expansion, and everyone assumed that wealth would keep growing. But India's problem was different—to create wealth in the first place. India's intellectuals and policy makers, many of whom had been trained in the West, suffered from the same blind spot. Caught up in the Western fashions, I find that I did not read the great Austrians, Schumpeter and Hayek and von Mises. Thus, I missed the excitement of the capitalist revolution and the romance of 'creative destruction'. It was overshadowed by Marx's brilliant critique of capitalism, which I read in plenty. Even Max Weber's *The Protestant Ethic and the Spirit of Capitalism* sounded more like a critique than a celebration. Most of my teachers at Harvard also had an anti-business bias, which reinforced my own prejudice. As undergraduates in arts and sciences, we looked with contempt at the Harvard Business School across the Charles river. All of us wanted to be scholars and dedicate our lives to the dispassionate pursuits of 'truth, beauty, and justice' like Socrates. When Chit Kapur, who was a year ahead of me in college, decided to do an MBA on the other side of the river, I was surprised and a little disappointed. I felt that he was throwing away his undergraduate education. It is, of course, vastly different today, I realize. Today's undergraduates do not suffer from our hang-ups and our idealism. However, the spirit of those times came in the way of building upon the lessons that I first learned as a thirteen-year-old boy from my paper route.

7

Capitalism for the Rich, Socialism for the Poor

> Those who have given themselves the most concern about the happiness of people have made their neighbours very miserable.
>
> —*Anatole France*

While I was studying in America, India had begun to implement with much vigour the ideas and theories of the development economists. I got a first taste of where we were headed when I came home during my summer vacation. I spent several weeks with my grandfather in Ludhiana, where I found that he would spend the entire morning reading the *Tribune* in his courtyard, and complain to anyone who would listen that Nehru was recklessly wasting the taxpayers' money. He felt that Nehru's state-owned companies were being managed by civil servants, people who had no training in running commercial enterprises. Nor were they asked to make a profit. They were recklessly hiring workers without any thought to performance. He angrily pointed to a front-page news story in which Nehru had resolutely defended their losses in Parliament, saying that their job was not to make a profit but to meet social objectives.

'The public sector has become the politician's cow—to be milked forever,' he groaned. He was no economist, but he could tell when common sense was defied. His lawyer's sensibilities were also wounded by Nehru's disregard of private property. The government had nationalized a number of industries without adequately compensating the owners.

Grandfather was ahead of his time. All his friends and neighbours thought his views odd, because everyone was hopelessly under the sway of Nehru's ideas. He predicted that the bureaucracy's growth would spread like cancer, lead to corruption, and threaten liberty one day. He did not think that Nehru had his feet on the ground; his talk of socialism put him off, just as my uncle Sat Pal's Marxism did. Nehru defended himself by saying that he admired the Soviet Union for having transformed a backward peasant economy into a world power, but he did not approve of Stalin's methods. His ideas were closer to the Fabians and other English intellectuals between the wars, who advocated the rationality of central planning within a parliamentary system that protected civil liberties and democratic rights.

In those early years, there was, in fact, a competing philosophy to Nehru's. It belonged to Mahatma Gandhi. It was a vision of a republic of self-sufficient villages employing indigenous technologies, materials, and talents. Gandhi's guiding principle was to achieve self-reliance in the village for the basic needs of the people—food, clothing, and shelter. Such an approach, Gandhi felt, would avoid mass migration to the cities, with the attendant problems of unemployment, homelessness, and crime. Nehru thought Gandhi's vision hopelessly idealistic, but he agreed with him about rural development, and he created a community development programme in the 1950s, funded partly with American aid. Begun with great fanfare and enthusiasm, the programme soon became hopelessly bureaucratized. It failed like many other well-intentioned programmes because Nehru did not have the patience, the managerial skills, or the passion to implement it. Nor was it Gandhian in spirit—it was 'top down', rather than 'bottom up'.

Surprisingly, Indian businessmen also supported Nehru's ideas on central planning. They were seduced by the thought that piecemeal growth based entirely on market forces might not bring about rapid development. They too believed that free trade and the laissez-faire policies of the British Raj had been at the root of the country's economic problems. Moreover, they had benefited from the Raj's interventions in the inter-war years. They had gained enormously from high tariffs on imported goods since the 1920s, and it was natural that they should want them to continue. However, they resented Britain's neglect of India's power, roads, and other infrastructure.

In 1944 India's leading capitalists came together in Bombay and crystallized their vision for a modern, independent India. They included the giants of Indian business—J.R.D. Tata, G.D. Birla, Lala Shri Ram, Kasturbhai Lalbhai, Purshotamdas Thakurdas, A.D. Shroff, and John Mathai—and they produced what came to be known famously as the 'Bombay Plan'. The Bombay Plan argued for rapid and self-reliant industrialization. Although the industrialists recognized the need for foreign capital and technology, they wanted it to be under the strict control of the state. They preferred foreign debt or loans rather than equity or entrepreneurial investment, and they wanted foreign ownership to be prohibited in essential areas like banking, insurance, power, and aviation. Where it existed, they wanted it nationalized. Ominously, they were willing to accept 'important limitations on the freedom of private enterprise', and they agreed that 'rights attached to private property would naturally be circumscribed'. Even more disastrous was their acceptance of a vast area of state control—in fixing prices, limiting dividends, controlling foreign trade and foreign exchange, in licensing production, and in allocating capital goods and distributing consumer goods. Without realizing it, the Indian capitalists had dug their graves. Indian businessmen must, thus, share the blame for misreading history.

During the last decade of the Raj, the government's involvement in running the economy had grown. With the coming of the Second World War, rationing, price controls, and other bureaucratic interventions had become necessary. They now provided the politicians and bureaucrats with ready instruments to control the economy of independent India. While in other countries these controls were gradually dismantled by the end of the war, they continued in India.

India was not unique in wanting to develop and industrialize rapidly through the agency of the state. All the countries that became independent after the war shared this ambition. They followed India's example, although India was unusual in wanting to do so by democratic means. Who was responsible for taking India on the path of democratic socialism? Nehru certainly, but also the extraordinary Bengali Brahmin, Prasanta Chandra Mahalanobis, who was the central intellectual figure of the 1950s. He symbolized a distinctive feature of the Nehru era: to bring the rationality of technocrats, economists, and scientists to bear on decision making. Professor Mahalanobis was the *eminence grise* at the Planning Commission, which was situated only three kilometres from our house in Kaka Nagar. Throughout the 1950s the Planning Commission enjoyed unparalleled prestige. Mahalanobis was a man of science, but he was also a philosopher, literary critic, and Sanskrit scholar. He had studied mathematics and physics at Cambridge, and had founded the Indian Statistical Institute in two rooms at the Presidency College, Calcutta, from where he published *Sankhya*, a journal on statistics, which later became the influential house journal of Indian planners. Not only was he a close associate of Rabindranath Tagore, he also knew more about the canon of the poet's early writings than the poet himself could recall.

It was Mahalanobis's deep commitment to rationality that attracted him to Nehru. He believed that the characteristic mark of the modern age was a scientific temper, which 'subjects natural phenomena to rational explanation and human control, and provides the great breakthrough of the human intellect'. Mahalanobis wanted India and other backward countries to place men and women of scientific outlook in positions of responsibility. He regretted that India's caste-based society did not encourage a spirit of rational enquiry. We used to have a

great tradition of respect for the Brahmin, as a teacher, he used to say, but now we needed to build a tradition of appreciation for science and scientists. The idea that science could provide the answer to raising India's economy appealed to Nehru. Mahalanobis suggested to Nehru that statistics could become a powerful tool for economic planning. Although he was not an economist, Mahalanobis quickly mastered the new subject and began collecting statistical data on national income in 1949. Such was the power of his mind and personality that he soon became the central focus of policy making and began to dominate the planning process.

Mahalanobis had a profound effect on Nehru's thinking although he held no official position. His title, Honorary Statistical Advisor to the Government of India, certainly did not reflect the extent of his influence. His biggest contribution was the draft plan frame for the Second Five Year Plan, possibly the single most important document in the 1950s and 'possibly one of the most important documents in the world at that time'. In it he put into practice the socialist ideas of investment in a large public sector (at the expense of the private sector), with emphasis on heavy industry (at the expense of consumer goods) and a focus on import substitution (at the expense of export promotion), besides other follies which were inspired by the USSR and China. No wonder he became the darling of the left.

The plan frame proposed 'a two-pronged attack on the problem of breaking through India's static economy: the creation of a large machine-building industry as a basis for the expansion of secondary industries; and decentralised cottage industries to create jobs for India's army of unemployed'. The latter was expected to produce consumer goods at a low cost and create employment with minimum social dislocation. 'Once a machine-building industry was established the hand-loom would be replaced by the power-loom, and low cost cottage industry would be able to compete with factory manufactured goods.'

The Gandhians loved the protection for cottage industry. Socialists welcomed the emphasis on a heavy industry and the

expansion of the public sector. However, the business community was dismayed by the drift of the country towards socialism and Soviet-style planning. Neither did civil servants warm up to the 'socialist tendencies' in the document, although secretly they must have been pleased as they would be in charge. The finance minister, C.D. Deshmukh, was distressed that there was insufficient discussion of the plan frame's ideology in the cabinet. But the thinking elite was electrified by the document. Intellectuals abroad were euphoric. J.B.S Haldane, the distinguished, albeit committed, foreign observer expressed the sense of excitement among intellectuals overseas:

> Even if one is pessimistic, and allows a 15 per cent chance of failure through interference by the United States (via Pakistan or otherwise), a 10 per cent chance of interference by the Soviet Union and China, a 20 per cent chance of interference by civil service traditionalism and political obstruction, and a 5 per cent chance of interference by Hindu traditionalism, that leaves 50 per cent chance for a success which will alter the whole history of the world for the better.

Taya Zinkin, a British journalist, pointed out that there was a socialist revolution by consent under way in India that would make 'communism look both old-fashioned and barbarian by comparison. It was a revolution without class wars, heretics or victims, and its weapons were a series of tedious legal acts.' Nehru was anxious to explain his policies to the masses and give them a sense of participation in economic and social development. He made a long string of speeches in the winter of 1954 to educate the people about his vision of a socialist society. This culminated in his landmark resolution at the Avadi session of the Congress party in January 1955, which committed the nation to 'the establishment of a socialist pattern of society where the principle means of production are under social ownership or control'. It gave legitimacy to Nehru's intellectual joint venture between Keynesian macroeconomics, Stalinist public investment policy, and Gandhian rural development.

Mahalanobis believed that steel was central to the revolution. 'The production of steel probably has the highest correlation with national income in different countries,' he argued, and 'we shall . . . use the steel to produce more machinery to produce more steel and tools; and also to produce machinery to make more consumer goods'. The logic was clear. But to get started India needed a heavy dose of investment and technology from abroad. India had only two relatively small steel plants at the time, making barely a million tonnes a year. Given his socialist bias, Mahalanobis ruled out private foreign investment; nor did Indian entrepreneurs have the massive funds, he felt, to fulfil the bold vision. The government, thus, reached out to foreign governments who could build the plants based on foreign aid. The West Germans agreed to give a loan to build a plant with the famous Krupp technology in Rourkela in Orissa. The British offered a loan to their equipment makers to set up a plant at Durgapur in West Bengal. The Soviet Union came forth with a plant at Bhilai in Madhya Pradesh. Together these three plants added only 2.3 million tonnes, and India still imported a million tonnes a year at a cost of $200 million in the early '60s. The Indian government now approached the United States for the fourth plant at Bokaro. John F. Kennedy, the President, was a friend of India and he readily agreed to champion the project. It was to be the biggest plant, and it had the biggest price tag—roughly a billion dollars, to make four million tonnes of steel. Despite a friendly President and supportive ambassador (Galbraith), the plant was spiked in the US Congress. That day I was among the vast number of Indians who were deeply disappointed with America. India was again pushed into the Soviet embrace to finance the plant, and Russia had to finally set it up.

In the 1950s there was an alternative vision to that of Mahalanobis. It belonged to two Bombay economists, C.N. Vakil and P.R. Brahmanand. It was neither as glamorous nor as technically rigorous as Mahalanobis's, but it was more suited to the underdeveloped Indian economy. Its starting point was that India lacked capital but it had plenty of people. There was huge disguised unemployment in the countryside. The thing to do was to put these people into productive work at the lowest capital cost. The Bombay economists suggested that we employ the surplus labour to produce 'wage goods', or simple consumer products—clothes, toys, shoes, snacks, radios, and bicycles. These low-capital, low-risk businesses would attract loads of entrepreneurs, for they would yield quick output and rapid returns on investment. Labour would produce the goods that it would eventually consume with the wages that it earned in producing the goods. They were called 'wage goods' because the wage-earner would create the demand for the goods that he produced. The idea was similar, in a sense, to Henry Ford's, who paid his workers generously so that they could afford to buy his cheap, mass-produced cars. This Bombay strategy was exactly opposite to Mahalanobis's vision of huge state-controlled, capital-intensive steel plants, employing few people, and delivering low returns over long gestation periods. The 'wage goods' strategy would have pushed investments into agriculture, rural infrastructure, agro-industry, and simple consumer manufactures for both the home and export markets. It would have meant postponing the ambitious projects in capital and heavy industry. We would have imported the capital goods in the near term, and the foreign exchange for their import would have been earned from the export of simple consumer manufactures—the sort of products that Japan and the Asian tigers started with. The result would have been high economic growth, high employment, rising exports, and prosperity.

Bombay is known for Alphonso mangoes, its deep natural harbour which is ideal for shipping, and its famous stock exchange. But not for its economists. Economists largely grow in Calcutta, and when they are ripe they are sent off to Delhi. It is no wonder that Bombay's vision was ignored. It was too practical and sensible—much like Bombay's citizens. It is a great tragedy of history that no one paid attention to Vakil and Brahmanand's strategy, certainly no one in the government. The Indian intelligentsia was mesmerized by the apparent success of the USSR. It wanted big steel plants and not small

factories which made clothes, shoes, toys, and bicycles—the sort of things that the masses could use. In those days, anyone in India who advocated greater investment in agriculture was branded an American agent. When American foreign aid experts had recommended that we invest in agriculture instead of steel, Indians had seen it as a sinister plot to keep India backward.

Mahalanobis made two other strategic errors, which we only discovered later. He assumed that there were no opportunities for rapid export expansion. Soon we would find out that tiny Hong Kong earned more from its exports than the whole of India. He also assumed that competition was wasteful. We would learn that there could be no improvement in productivity without it. As a result of these and other errors, India would begin to fall behind its more dynamic rivals and slowly lose its reputation. But it was India's interventionist licensing that turned out to be an economic cancer.

Mahalanobis's thinking on the Second Plan was logically extended to the damaging Industrial Policy Resolution in 1956, which reserved seventeen industries exclusively for the public sector. The reserved industries included iron and steel, mining, machine tool manufacture, and heavy electrical plants. Although it left the door open for private entry into the reserved list, in practice the door was closed for thirty-five years, and the reservation became sacrosanct until the reforms of 1991. The logic behind 'reservations' was that these were industries of 'basic strategic importance' and 'required investment on a scale which only the state could provide'. It was flawed logic. In the 1950s, perhaps an industrialist did not have the resources, but in the '60s many did (when G.D. Birla, for instance, was refused a licence to set up a steel plant).

It never did make sense to close an industry to the private sector—it was tantamount to discouraging entrepreneurship. It was prejudice, pure and simple, against the market. The successful countries of the Far East, in contrast, practised the opposite policy in the 1960s. In Korea, for example, the government offered cheap credit to private business, when it did not have the resources necessary to set up strategic and basic industries. The Tatas made 119 proposals between 1960 and 1989 to start new businesses or expand old ones, and all of them ended in the wastebaskets of the bureaucrats. Aditya Birla, the young and dynamic inheritor of the Birla empire, who had trained at MIT, was so disillusioned with Indian policy that he decided to expand Birla enterprises outside India, and eventually set up dynamic companies in Thailand, Malaysia, Indonesia, and the Philippines, away from the hostile atmosphere of his home.

Even more damaging than placing the public sector at 'the commanding heights of the economy' were the creeping controls on the private sector. The most bizarre and damaging was the licensing system. It began with the Industrial Licensing Act of 1951, which required an entrepreneur to get a licence to set up a new unit, to expand it, or change the product mix. The purpose of licensing was (a) to create the planned pattern of investment, (b) to counteract monopoly and the concentration of wealth, (c) to maintain regional balance in locating industries, (d) to protect the interests of small-scale producers and encourage the entry of new entrepreneurs, and (e) to encourage optimum scale of plants and advanced technology. All these were good intentions, but the way that the bureaucracy went about administrating the licensing system created a nightmare for the entrepreneur.

An untrained army of underpaid, third-rate engineers at the Directorate General of Technical Development, operating on the basis of inadequate and ill-organized information and without clear-cut criteria, vetted thousands of applications on an ad hoc basis. The low-level functionaries took months in the futile micro-review of an application and finally sent it for approval to the administrative ministry. The ministry again lost months reviewing the same data before it sent the application to an inter-ministerial licensing committee of senior bureaucrats, who were equally ignorant of entrepreneurial realities, and who also operated upon ad hoc criteria in the absence of well-ordered priorities. Once it cleared the licensing committee, it

was sent to the minister for final approval. After the minister's approval, the investor had to seek approval for the import of machinery from the capital goods licensing committee. If a foreign collaboration was involved, an inter-ministerial foreign agreements committee also had to give its consent. If finance was needed from a state financial institution, the same scrutiny had to be repeated afresh. The result was enormous delays, sometimes lasting years, with staggering opportunities for corruption. By the time the back-breaking process of moving files from office to office was completed, many an entrepreneur had lost heart.

Large business houses set up parallel bureaucracies in Delhi to follow up on their files, organize bribes, and win licences. Since the system was based on first come first served, 'the bigger houses realized that they could corner a considerable amount of targeted capacity by putting in multiple and early applications for the *same* product. Thus, they could "foreclose capacity", without any intention of implementing the successful licence application.' If the entrepreneur did finally get started and made a success of his enterprise, he was again in trouble. It was an offence punishable under the law to manufacture beyond the capacity granted by the licence. We became the only country in the non-communist world where the production of goods sorely needed by the people was punishable by law.

Tragically, the system ended in thwarting competition, entrepreneurship, and growth, without achieving any of its social objectives. It fostered monopolies and encouraged uneconomic-scale plants employing second-rate technology in remote, uncompetitive locations. The endless delay in clearing applications discouraged the entry of efficient and honest entrants and rewarded wily, inefficient producers who could manipulate the system. In many cases the basic entrepreneurial decisions, such as the choice of technology and the size and location of plants, which impacted on costs and prices, were taken away from risk-taking businessmen and were made by bureaucrats who did not have a clue about the basics of running a business. Thus, licensing was an unmitigated disaster.

It raised costs, brought delays, arbitrariness, and corruption, and achieved nothing. We killed at birth any hope for an industrial revolution.

The responsibility for instituting the nightmarish controls clearly lies with the bureaucracy. I.G. Patel, the distinguished economist, who was closely associated with the government in senior positions, confessed that Nehru's 'acceptance of controls came through the influence of civil servants (and economists) who had gone to the same kind of schools and who spoke the same kind of English and with whom, as a result, he came to have a special kind of rapport'. There was probably no more distinguished group than the top civil servants that Nehru had gathered in economic decision making at the time. There were Rama Rau and H.V.R. Iyengar at the Reserve Bank, H.M. Patel, M.V. Rangachari at the finance ministry, L.K. Jha and K.B. Lall at commerce and industry, Tarlok Singh at the Planning Commission. Like Nehru, they were clean, well-intentioned people.

B.K. Nehru, the Prime Minister's cousin (who also played an important role in economic decision making at the time) admitted in his autobiography that 'with the benefit of hindsight it seems totally absurd that a country wanting to develop its industry should prescribe for its establishment conditions which were guaranteed to strangle it'. He confessed that there was hardly any experience in the government of how industry was actually run. Prime Minister Nehru merely desired that 'the commanding heights of the economy' should be in the public sector. Beyond that, the Prime Minister left it to the civil servants to create a framework to regulate private enterprise. The underlying assumption remained that business was dishonest and 'to ensure honesty and eliminate profiteering, private business should operate under strict government control'.

The one person who could have stopped the growing regulatory monster was the powerful T.T. Krishnamachari (TTK), who had the implicit trust of the Prime Minister. He was a cabinet minister in charge of commerce and industry between 1952 and 1956, of iron and steel (1955–56) and then

finance minister (1956–58 and 1963–65). He was a businessman who understood how the economy worked. He was neither afraid of Mahalanobis, nor of ideology. He was one of the ablest members of the cabinet, and he was impatient to get on with the job. He didn't bother if investment was public or private. He encouraged both. He constantly met private industrialists and goaded them to invest. He helped the Tatas to expand their Tisco steel plant and set up their Telco truck-making project. He set up major financial institutions for providing cheap credit and financing to the private sector—IDBI, IFCI, ICICI. He pushed for the speedy erection of the three public sector steel plants. He chided the Gandhians for wanting to go back to the village. He was critical of the socialists, saying, 'greater emphasis on State enterprises [will] merrily lead to a dead end'.

TTK worried about the organizational set-up of the public sector enterprises: 'The one enterprise which I took over (in the public sector), the Hindustan Steel Ltd, would, I am afraid, if publicly scrutinised, condemn forever the creation of a public sector.' Despite the brave words, TTK turned out in the end to be merely a wily politician, and his convictions ran only skin-deep. His power depended on the trust that Nehru reposed in him. Nehru's confidence in him depended on TTK's enthusiastic support to the Prime Minister's socialist policies. Because it was politically correct, TTK cogently defended Mahalanobis's Second Plan in Parliament. He nationalized insurance. He was the author of the Industrial Policy Resolution of 1956, which put industry into a complete straitjacket. He also presented the infamous budget of 1957-58, which added Kaldor's wealth tax, expenditure tax, gift tax, and capital tax, *on top of* an 87.5 income tax rate, and thereby he killed the stock market.

How a bright and able businessman destroyed the future of private industry in India can only be explained by TTK's thirst for power. Instead of resisting controls, he cheerfully added to them, because he thought it would consolidate his popularity with Nehru. The business class, who should have been the

first to protest, was too timid. In the years after Independence, people had been hard hit by inflation, because of post-war dislocations and the partition of the country. As the prices of food rose, it was natural for the middle class to blame the usurious merchants in the neighbourhood, calling them 'profiteers and black marketers'. Hence, businessmen were defensive.

Neither did the international experts complain. During the 1950s and '60s, a galaxy of world-renowned economists came to India. Among them were Rosenstein-Rodan, Arnold Harberger, Jan Timbergen, Ragnar Frisch, Ian Little, Richard Eckaus, Max Millikan, Nicholas Kaldor, Richard Goodwin, Oskar Lange, Brian Redway, Alan Manne, James Mirlees. Most of them were full of praise for Nehru's bold experiment to combine the social justice of socialism with democracy's freedom.

Criticism against controls finally came from the Swatantra Party in the early 1960s. Led by the respected figure of C.R. Rajagopalachari, the party championed the cause of free enterprise in India. He gave the name 'Licence Raj' to Nehru's socialism. But the party did not survive because Indian businessmen found it easier to get what they individually wanted (licences, permits) from staying on the right side of the Congress party. Neither have Indian businessmen been ideologically committed to free competition. They are forever ready to seek protection from foreign imports and foreign capital. Moreover, they genuinely believed that Britain's laissez-faire policies had aborted India's industrialization, and they were willing to put up with an interventionist state. The Swatantra Party was ineffectual because there was insufficient intellectual support for free and competitive markets in India. In a society steeped in feudal traditions and generations of economic stagnation, it is difficult to think of positive sum results. Everyone is programmed to think that 'my success can only come at the expense of your failure', and 'I can only get more land by taking it from you.' The government is 'mother and father', protecting me from my rapacious brother. In such

a society the madness of government controls—Licence Raj—was a natural development.

With all that was going for India in the 1950s, what went wrong? Where did science let us down? How did the development experts fail? Despite the gloss of science, despite the acclaim of the international economists, the fact is that our fundamental ideology was flawed. We adopted Nehru's 'mixed economy' because we believed that it was superior to both capitalism and communism. By 'mixed economy' Nehru meant a mixture of socialism and capitalism in which the state would take a leading role in industrialization. We grew up in the smug belief that although the mixed economy was inefficient it was better than capitalism because it cared for the poor. It was better than communism because it preserved democratic freedoms. This turned out to be wrong in practice.

The mixed economy ended in combining the worst features of socialism and capitalism—the 'controls' of socialism with the 'monopolies and lobbies' of capitalism—and we got the worst of both the worlds. The 'controls' suppressed growth by subduing the innovative energies and animal spirits of capitalism. Nor did the mixed economy deliver social justice and welfare, which at least the socialist countries did. Instead of delivering quality education and public health to the masses, it delivered subsidies, which usually went to the better off.

The problem of the mixed economy was of performance, not of faith. It was a noble vision of Nehru's which led to oppression by the state. Indians later learned from painful experience that the state does not necessarily work on behalf of the people. It works on behalf of itself—the politicians, bureaucrats, and the interests which directly support them. State employees went on to become a powerful vested interest who were responsible to no one and they often believed that they did not have to work.

There were at least five flaws with our socialism. We adopted an inward-looking, import-substituting path rather than an outward-looking, export-promoting route, and thus we did not participate in world trade and the prosperity that trade engendered in the post-war era. We set up a massive, inefficient, and monopolistic public sector to which we denied autonomy of working. We over-regulated private enterprise with the worst (case-by-case) controls in the world, and this diminished competition in the home market. We discouraged foreign capital and denied ourselves the benefits of technology and world-class competition. We pampered organized labour and that led to extremely low productivity.

Ultimately, we paid a heavy price for our scepticism of the market's ability to allocate resources wisely. We did not trust profit to reflect economic efficiency. Neither did we think that Indian entrepreneurs had the will or the resources to make the investments needed to transform the country rapidly. We felt that only the state could assume this role. We were under the spell of the Soviet economic miracle and this led to a bias towards heavy industry and against agriculture and light consumer industry. We assumed that India could not export and would always be short of foreign exchange. Therefore, we had to depend on substituting imported products, especially capital goods. These assumptions turned out to be wrong.

It was a failure both of ideology and management—the latter more than the former. Many believe that if Sardar Patel had become our first Prime Minister rather than Nehru, our future might have been different. Patel was not only less ideological, he was a superb manager.

Let us not forget that socialism was attractive to any sensitive person in the idealistic 1950s. The country had become free after 200 years, and there was a sense of hope. The class with money and influence was tiny and came entirely from the upper castes. It had monopolized power and privilege and the few scarce facilities for education, health, and infrastructure. It naturally wanted to preserve its privileges. The rest of the population had been left out in the cold. It was natural for the ordinary Indian to expect that independent India should intervene on behalf of the masses. We must not forget that

Nehru too was the product of a certain society and age. The spirit of the times offered socialism as the answer. The leaders, for their part, who had fought for decades for freedom and who were now in power, were also in a hurry. They could not wait for the benefits to 'trickle down' from a market-oriented strategy. However, the socialism that emerged was 'a rather weak and hollow reed in which one could blow almost any kind of music'.

PART TWO

The Lost Generation

(1966–91)

The people are happy when the king is far.

—*Chinese proverb*

8

Bazaar Power

> Commerce is the art of exploiting the need or desire someone has for something.
>
> —*Edmond and Jules de Goncourt*

I arrived on the island of Bombay on a wet monsoon day after eight years in America. The damp streets shone from the rain and the city's air was dense with wetness. The yellow and black taxi drove me through soggy quarters, carelessly bouncing over puddles. It was an early evening in August and the streetlights glistened on the asphalt. That night I saw fifteen-foot-tall waves of the Arabian Sea shatter thunderously against the rocks below my window. The southwest wind whistled through the cracks between the shutters, as the rain advanced from the deep sea like the disciplined forward phalanx of an army. The next morning I reported for duty at Vicks's Indian subsidiary. The office turned out to be a tiny, rented space on the third floor of a rundown but quaint old building called Queens Mansions in the Fort area, with a dozen employees. This felt like a real comedown from the company's swank New York offices in midtown Manhattan, where I had been hired and trained for three months.

After graduating from Harvard, I was confused. I missed home. Although I had several scholarships to pursue post-graduate studies in philosophy, I was less and less inclined to become an academic. Yet, I did not know what else to do. I couldn't return home empty-handed. My parents would never have understood. In desperation, I wrote to several dozen American companies with operations in India, asking them for a job in their Indian subsidiary. I did not think I wanted to make a career in business, only that it might make a nice break for a couple of years from the academic life. Only one company responded. It was Vicks, the makers of Vaporub and other over-the-counter medicines. After several interviews in New York, Surin Banta, the general manager of the Indian subsidiary, who happened to be visiting from Bombay, offered me a job. He explained that the company was relatively new in India, and this was my chance 'to get in at the ground floor'. And so, I was in Bombay.

I was given a desk and a chair in a room with two other marketing people and designated 'Trainee' at a salary of Rs 750 per month. My boss was the advertising manager, a pleasant Gujarati from Ahmedabad, who welcomed me with a warm smile. At eleven o'clock tea was brought to me on a tray, which confirmed my status as an 'officer'. The clerks and the secretaries received pre-prepared tea in a cup and saucer. My job was to learn to market Vicks remedies for coughs and colds in the Indian market. But by noon on the very first day, I was already in trouble. Around 11:30 I had been summoned by the sales director. He began to brief me on the sales and distribution structure of the company. Since I knew nothing about business, I asked the most elementary questions. I wanted to know why things were done the way they were. He thought I was being insolent. No one, it seems, had questioned the basic system. In my defence I said that I was merely trying to learn by questioning. He got angry and complained to Banta. He said that the company had made a wrong decision in hiring me.

'Why?' asked Banta.

'He asks too many questions!' said the sales director. 'He won't survive. We had better let him go.' Banta said that he would ask the advertising manager to talk to me. 'He can talk as much as he wants. But I know a rotten egg when I see one. He won't fit here.'

That afternoon the advertising manager called me into his room. He looked at the fluorescent light overhead and then at his olive-coloured steel desk. There was a long pause. Finally, he cleared his throat and began to speak uneasily. It took him awhile to get to the point. He asked me what had gone wrong at my meeting with the sales director. 'Nothing,' I said.

'Well, he wants to fire you.' I was shocked.

The problem seemed to be my attitude. 'He thinks you ask too many questions.'

'Is it wrong to ask questions?'

'Yes, if it shows a lack of respect. You are no longer at the university. First, you must learn how things are done. Then there will be time enough to ask questions. We'll give you one more chance. But remember, I won't be able to save you the next time.'

I was devastated. When I went back into the hall, I thought all the clerks were staring at me. It seemed everyone knew that I was in trouble. Instead of going back to my desk, I went out into the street and wandered aimlessly towards the harbour, feeling defeated. It was a funny world, I thought, where you couldn't ask questions. I looked at the gritty, impossible city. I passed by a row of warehouses and soon reached the great natural harbour, with its miles upon miles of deep, sheltered water. A dozen merchant ships were moored there, waiting to unload. It was a clear day and the mainland of India was visible in the distance, under the brilliant monsoon sky, but the vast scene was coloured by my unhappiness.

As the days went by things seemed to improve. Both Banta and the advertising manager realized that 'my problem' was that I was 'excessively curious'. The sales director, however, continued to be hostile and I tried to avoid him. This was not easy since he would barge into our room three times a day. All three of us were expected to jump to attention when he

entered, and speak only when spoken to. It fed his ego, but I thought it a most inefficient way of working, particularly since he spent hours haranguing us, wasting his time and ours.

I had a cousin in Bombay and one evening he invited me for dinner. He worked in a big British company with many factories, thousands of employees, and plush multi-storied marble offices. He asked me many questions about my job, my company, my title, and my place in the hierarchy. After listening to him, I felt small and ashamed to talk about my office and my job.

'How many factories do you have?' he wanted to know.

'None,' I said.

'How many salesmen do you have?' he asked.

'None,' I said.

'How many employees?'

'Twelve.'

'How big are your offices?'

'A little smaller than your house,' I replied honestly.

Years later, I realized that what had embarrassed me that night turned out to be my company's strength. All twelve of our employees were focused on building the Vicks brand without the distraction of factories, headquarters staff, sales forces, industrial relations, and dozens of departments. Boots, an English drug manufacturer, made our products under contract. A distributor, Muller and Phipps, who had a hundred salesmen spread around the country, distributed them under contract. Our external auditors had arranged for someone to do our accounting and our lawyers took care of our government work. We were lean, nimble, and all of us were building the business, attempting to create loyalty among the chemists and the consumers. We were also very profitable.

All my cousin's talk that night revolved around office politics, and all his advice was about how to get around the office bureaucracy. It was not clear to me how his company made decisions. But he was a smart man, and I sensed that with all his pride in working for a giant organization, he had little respect for its bureaucratic style. It seems to me now that if persuading the customer to buy a product is ultimately what leads to business success, then it is logical that a company should spend all its time and energy on ways to enhance customer satisfaction and employ outside suppliers to do everything else. It should spin off as many services as suppliers are willing to take on and leave everyone inside the company to develop and improve products and create, retain, and satisfy consumers.

There is a concept in Yoga called one-pointedness (from the Sanskrit, *ekagrata*). All twelve of us in those days were one-pointedly focused on making Vicks a household name in India. As I look back on my early days on the job, I certainly learned the value of a one-pointed focus on one's core competence. In a consumer product company, this means that product development and marketing are the only skills that need to exist in-house. All the other jobs can be contracted. I learned this lesson because I was constantly put face to face with the consumer. It would have taken a lot to learn this lesson in a glass tower in Manhattan.

As so often in life, however, by the time I could apply the lesson I had learned, our company had a thousand people, several factories, a national sales force, and many departments that were having a lot of fun fighting over turf. I believe that tomorrow's big companies may well consist of hundreds of small decentralized units, each with a sharp focus on its particular customers and markets.

Like every northerner, I did not like Bombay at first. It seemed crowded, noisy, and chaotic after the wide open spaces of north India. I had to learn to negotiate the tangled traffic, the beggars and the pavement sleepers. I found it all squalid and dismal. The smoke from the mills in Parel was like exhaust fumes, especially in the rain. Amid the harsh nakedness of industrial India, I sorely missed the India of my childhood—the Himalayan birds, the trees, and the grass spaces with which I had grown up in Simla and Delhi. When I looked at the millworkers, I saw empty faces, without any expression of life. There was no beauty in the lives of the industrial masses.

From the local train I could see the urban stain spreading, eating away at peaceful old villages, driving back the coconut trees, smothering the once calm lives in lazy bungalows with chemical fumes and dotting the shores of creeks with slums. Because it was an island, joined at the top with the mainland, Bombay's dormitory suburbs lay to the north; on the other three sides there was only water. The northern reaches of the city were mile after mile of urban sprawl, with sordid apartment blocks, dirty and crumbling, though only recently constructed. In-between I caught a glimpse of a green field here and there, scattered palm trees, an occasional blue mountain. But more often, the view was of dull shanty towns with mud huts pushing one against the other, covered with tin or plastic sheets, sometimes only with rags. Exposed suddenly to this horror, I felt ambivalent about industry and 'city living'. I imagined the island city one day being swamped by a dangerous tide of humanity and crumbling into the sea.

After the initial shock wore off, the city slowly began to grow on me. The breeze from the Arabian Sea, sent as if by Bedouins, had the power to banish all uncomfortable thoughts and soothe the body. I delighted in the entrancing view of the sea, shining like a brilliant turquoise stone. I walked on full-moon nights in the dazed air of Hanging Gardens, alongside the gulmohar trees. Even negotiating the gales on Marine Drive during the monsoon was an adventure. The city gradually won me over. I admired it for its great heart. Bombay was a miniature India which opened its arms to people from all over the country. It contained an infinite number of social worlds, intricately woven yet separate.

My ambivalent feelings about industry gradually underwent a change as I was slowly caught in the romance of the commercial world. I worked in the heart of the business city, surrounded by the port, the stock exchange, and the commodity markets. On my way to work, I passed warehouses, business houses, and shipping agents. Gradually I adopted Bombay's heroes as my own. My eyes would grow misty when talk turned to the merchant princes like the Sassoons, Wadias, Tatas, and Birlas.

Instead of viewing industry with disdain, I began to see it as the nation's lifeblood and a symbol of prosperity. I began to understand that if the engineering industry had not succeeded the old textile industry, and if petrochemicals and chemicals had not succeeded engineering, Bombay would not have retained its energy, nor its position as the premier employer and taxpayer of the country. But I was bothered by the fact that squalor seemed to grow as fast as prosperity.

A month after I joined the company, Surin Banta handed me a brown salesman's leather bag and a train ticket and sent me 'up-country'. A man of the old school, he believed that you learned marketing only in the bazaar. So I spent ten of my first fifteen months on the road and saw many up-country bazaars. Despite the heat and the dust, and the occasional 'house full' hotel, I enjoyed my field training and meeting new people. Every day I worked diligently from morning to evening and learned to outsmart wily traders. I grew accustomed to the narrow, congested streets full of bullock-carts, bicycles, handcarts, and garbage dumps. After visiting the local stockist each morning, I would call upon the major retailers in the town, accompanied by a 'poster man' and a deliveryman on a tricycle filled with my company's products. While I took the order, the tricycle driver delivered stock and collected cash, and the poster man plastered the shop with advertising. The stockist provided the delivery and poster men. It was an efficient division of labour, although the poster man sometimes stuck the posters upside down. Overall, I was amazed by the sophistication of trade, the seriousness of purpose of the merchants, and the enormous wealth that it was capable of producing. In contrast to the rich patterns of commercial life, the routine in an Indian government office struck me as dull and decadent, even barbaric.

Early one winter morning I arrived at Ratlam, a rail junction in Madhya Pradesh, on the main line between Bombay and Delhi. A coolie carried my bedroll and trunk a hundred yards to Sri Krishna Lodge. The pink-and-green ten-room hotel was popular with salesmen and commercial travellers. As it was full,

I had to share a room on the first floor. I was grateful for a bed, and did not mind the flies or the open drain outside the window. I walked out to the small balcony and looked down the street. The movie theatre diagonally across seemed forlorn. A cycle-rickshaw pulled up at a tea stall. Its driver, with a red scarf around his head, lit up a cheap cigarette. Another rickshaw passed, top-heavy with half a dozen schoolchildren perched precariously. I turned around and walked along the corridor stained by betel juice to wait my turn outside the wet bathroom. I bathed noisily out of a metal bucket, using a brass mug to pour water over my head.

My first call was on our stockist, Messrs Malwa Traders, the leading wholesaler of patent medicines in town. For a 5 per cent commission, it served as our stock point for the local retailers and wholesalers who catered to rural clients. I was greeted by the dust-covered and unshaven proprietor, Kewal Ram. He was cleaning his teeth with a neem twig, and had not changed from the lungi that he had slept in. The shop was equally dusty. His open jute bags of grains and chillies sent me into a fit of sneezing.

Kewal Ram ordered tea from the tea stall in front of his shop. I got busy checking our stock. Over tea, we chatted about wholesale rates. 'The market is depressed,' said Kewal Ram mournfully. Noticing that I was a novice, Kewal Ram decided to take me under his wing, and lectured to me on the devious ways of the market. Meanwhile, two salesmen arrived from a thread-making company. Kewal Ram was their wholesaler but not their stockist. They sat down and tea was again ordered. They too were new men. Shyly, they opened their order books and took an order. Soon they were ready to leave, but the tea had not yet arrived. They asked to be excused as they were in a hurry.

'Ah, but you must have tea,' insisted Kewal Ram.

'No, no, heh, heh, thank you, you are so kind.'

'No, you must have tea!'

'Well, if you insist. But we have to catch the noon train, and many shops still to cover.'

'What happened to the tea?' Kewal Ram roared at the tea stall, lifting his finger indignantly. 'Bring two glasses of your best special. And quickly.' After waiting ten minutes, the salesmen got restless and wanted to leave, but their host was insistent. Again, he shouted across the street, admonishing the tea shop with his finger. Soon the salesmen left, while Kewal Ram continued to curse the tea shop. When they were gone, another cup of tea arrived promptly for me.

Later that evening at the hotel, my 'room-mate' threw light on the tea episode. 'Kewal Ram is both a stockist and a wholesaler,' he explained. 'His policy is to serve tea only to the salesmen of companies who have appointed him stockist. However, he does not want to appear less hospitable to the others. Therefore, the lifted finger is an old, established signal between him and the tea shop. If he orders tea with a lifted finger, it is understood that tea is not to be served. The old-timers know his ways, but these thread people must have been new. Anyway, everyone gets caught the first time.' I wondered how Kewal Ram benefited from this foolish tea policy, which must lose him the goodwill of his suppliers.

On the road, I would typically meet our trade customers in the mornings and consumers in the evenings. In the afternoons, everyone slept. Lunch was always a leisurely meal, since the bazaar closed for the afternoon. I could not get used to sleeping in the afternoon and would read a book instead, sitting on my hotel bed under a fan. Usually I read history, especially about the region that I was visiting. In the evening I would meet consumers, and at night, if I didn't have to catch a train for the next town, I would walk down to a nearby cinema, 'check' the advertising commercials of my company, and watch the latest Hindi melodrama. Occasionally, I would be expected to hire and supervise schoolboys and girls to sample and demonstrate our products either in the bazaar or at schools and public gatherings. These demonstrations were in accordance with the promotion plans laid down by the advertising department in Bombay, and they supplemented the meagre reach of mass media in small towns. The stockist usually contributed part of

the cost of these promotions.

By and large my fieldwork went off uneventfully, except in a little trading centre called Katni, near Jabalpur, where I was bitten by a poisonous snake. The hostel staff carried me off, not to the local hospital, but to a Parsee cloth merchant. 'Stand!' shouted the Parsee, as I wobbled before him. While I tried to stand erect, the grave merchant recited a mantra.

'Stamp your foot!' bellowed the Parsee.

I obeyed, and again the Parsee repeated the mantra.

'Stamp your foot, twice!' A few minutes later I walked out of the merchant's shop without a limp, fully cured.

In the evenings, the merchants were too busy to talk to me. I used the time to visit the homes of our consumers and write elaborate reports to the advertising manager about my 'market research'. One day in Surat I learned the most important lesson of my business career.

Surat is a busy trading town 360 kilometres north of Bombay. It was the busiest port and banking centre of India before the British built Bombay. In the seventeenth and eighteenth centuries, the bankers of Surat had financed the East India Company's trade to the Far East. I knocked on the door of a Surat home one evening. The woman of the house reluctantly opened the door. After a few preliminaries, I asked her what her family did to treat coughs and colds. Her eyes lit up and her face became animated. She told me that she had discovered the most wonderful solution. She asked me in, went into the kitchen, and brought back a kettle. I thought we were going to have tea. However, she explained that she used this particular kettle for treating her family's colds. 'Here, let me show you,' she said.

Before I could say anything, she had disappeared into the kitchen. Soon she returned with the kettle full of boiling water. She poured a spoon of Vicks Vaporub into the kettle and together we inhaled the medicated vapours from the spout. Instead of drinking tea that evening, we inhaled Vicks. When she discovered that I worked for the same company, she was in raptures. She said that her whole family had been raised on

Vicks, and to express her gratitude she offered me a box of sweets. As I walked back from her home, I too felt intoxicated. She had infected me with her enthusiasm. More important, I had finally discovered that it was she and millions of mothers like her who paid my salary. From that day onwards I acquired a new respect for my work, which also did a lot for my self-esteem. On returning to Bombay, I quickly persuaded the company to put her ideas in our advertising. Till then I had believed that my salary came from the payroll clerk, who also doubled as Surin Banta's secretary. Therefore, I was especially nice to her. She was also pretty and I enjoyed doing little favours for her. Now I knew better. It was the same lesson that I had learned on my paper route in Washington.

The bazaar continued to reinforce the message. Every time I ate in an Udipi café or dhaba, my rice plate would arrive in three minutes flat. If I wanted an extra roti, it would arrive in thirty seconds. In a saree shop, the shopkeeper showed me a hundred sarees even if I did not buy a single one. After I left, he would go through the laborious and thankless job of folding back each saree, one at a time, and placing it back on the shelf. In contrast, when I went to buy a railway ticket, pay my telephone bill, or withdraw money from my nationalized bank I was mistreated or regarded as a nuisance, and made to wait in a long queue. The bazaar offered outstanding service because the shopkeeper knew that his existence depended on his customer. If he was courteous and offered quality products at a competitive price, his customer rewarded him. If not, his customers deserted him for the shop next door. There was no competition in the railways, telephone service, or banks, and their employees could never place the customer in the centre.

Years later, I was struck by the irony that all the money a company makes is made *outside* the company (at the point of sale), yet the employees seemed to spend most of their time *inside* the company, usually arguing over turf. The reason is that in large companies we do not see customers around us when we show up for work in the mornings. When I became the managing director of the company I made a rule that every

employee in every department must go out and meet twenty consumers and twenty retailers or wholesalers in order to qualify for his annual raise. This not only helped to remind us who really paid our salaries; we also got a pay-off in good ideas to improve our products and services.

After two years, I was promoted. I became the first brand manager in the company and I was given our most important brand, Vicks Vaporub, to manage. The first thing I noticed was that my product was growing strongly in the south but having trouble in the north. I asked myself whether I should try to fix the north or capitalize on the momentum in the south. I chose the latter, and it was the right decision. I later discovered that north Indians don't like to rub things on their bodies, but the more important lesson I learned is that it is usually better to build on your strength than to try and correct a weakness. It is wiser to listen to the market than to try to impose your will on it. South Indians were quite happy to rub balms for headaches, colds, bodyaches, insect bites, and a host of other minor maladies. This made it a large market. However, we also had a big and successful competitor in the south called Amrutanjan balm, which offered relief for all the symptoms mentioned above. My first impulse was to try to expand the use of Vicks Vaporub to other symptoms besides coughs and colds in order to compete in the large south Indian balm market. Banta quickly and wisely put a stop to that. In an uncharacteristically loud voice, he explained that Vaporub's unique function was to relieve colds. 'Each object has a function,' he said. 'A chair's function is to seat a person. A desk is to write on. You do not want to use a chair for writing and a desk for sitting. You never want to mix up functions.'

Over the years, I learned that a great part of Vaporub's success in India was because of its clear position in the consumer's mind. It is cold relief in a jar, which a mother rubs on her child's chest at bedtime. Balms are quite the opposite. Adults rub balms on themselves mainly for headaches during the day. Vaporub was succeeding precisely because it was not a balm; it was a rub for colds. Every brand manager after me

had to learn that same lesson. It is important to know who and what you are. This did not prevent us from building a successful business with adults, but as Surin Banta used to say, 'Adult colds, that is an armchair. But it is still a chair and not a desk.'

When I first became brand manager, we were spending most of our advertising budget to provide our products in the winter. It had worked in North America and in Europe, where people caught colds mainly in that season. However, our monthly volume data stubbornly suggested that we were shipping a lot of Vaporub between July and September, the hot monsoon season. So, I got the advertising manager's agreement to bring forward a good chunk of our media money to promote the product in the monsoon months, and we were rewarded with an immediate gain in sales. I followed this up by getting our advertising agency to make a cinema commercial (we had no television then) showing a child playing in the rain and catching a cold. We even coined a new ailment, 'wet monsoon colds'. Eventually the monsoon season became as important as the winter in terms of sales.

Moves like these made us hugely successful and leaders in market share. But instead of celebrating, Banta seemed to grow depressed. He called me into his office one day and asked how fast the market was growing.

'Ten per cent,' I said.

'Is that good?'

'The market's been growing 10 per cent but our sales have been growing almost 15 per cent, and that's why we have become number one in India,' I said with pride.

'That's good, but we are still fishing in a small pond. That pond has to become a lake, and then an ocean. You have to grow the market. Only then will we become number one in the world.' Banta was right, of course. Despite our success, Vicks Vaporub was still a middle-class product. Although our 19-gram jar sold for only Rs 3.50—cheaper than in any other country, it was still too expensive for the masses. The problem in selling a smaller size was the high cost of a glass jar. Plastics had not yet come of age. Banta pushed us hard to come up with a

smaller size. We pushed our suppliers, and one of them came up one day with a 5-gram tin and it eventually provided a major breakthrough.

At first, it was not successful. We took the risk and lowered its price to 75 paise, with the result that it became cheaper to buy four 5-gram tins than one 19-gram jar. The trade thought we had gone crazy. Why would anyone buy the more expensive jar? They would trade down to the tin. However, it did not happen. Why? Because we had positioned the tin for the working class. We were right in believing that the middle class would stay loyal to the middle-class size. The main lesson I learned from wrestling with sizes was that even when you are number one, your job is still to grow the market. You must always benchmark yourself against the best in the world, not just against the local competition. Eventually, the Indian subsidiary became the largest producer of Vicks Vaporub among 130 countries in the world.

We could not have succeeded in building the Vicks business in India without the support of local traders like Kewal Ram. They took our products deep into the hinterland, to every nook and corner of a very large country. We were often tempted to set up an alternative Western-style distribution network. Fortunately, we never did. Instead, we chose each time to continue relying on the indigenous wholesaler system. We appointed the largest wholesaler in each major town to become our exclusive stock point and direct customer, and called him our stockist. Kewal Ram was one such stockist. One of our salesmen visited the stockist monthly, as I had done during my field training, going from shop to shop redistributing our products to the retailers and wholesalers of the town. Over time, the stockists expanded their functions. They hired local salesmen who provided interim coverage of the market between the visits of our salesmen, and also visited satellite villages and helped us penetrate the interior. They conducted local promotions and advertising campaigns, and they became our ambassadors to the local community. The stockists performed all these services for a 5 per cent commission, and they paid us

promptly—our receivables averaged six days of sales outstanding. This system allowed us to take Vicks products deep into villages and the smallest towns in the country, and at a very low cost. Too often foreign companies do not value low-cost local infrastructure. They think they have to fashion everything according to a preconceived model.

I never did go back to the academic world. Like the man who came to dinner, I stayed on. I discovered that I liked the rough-and-tumble of the business life. A few years later my company sent me to our New York headquarters. I also worked in Mexico and Spain for a number of years. In 1981, at the age of thirty-eight, I became head of the Indian company when we were up against a wall. The chemists and pharmacists had united nationwide and decided to boycott our products in a fight for higher margins from the entire industry. Because of price controls, the government did not permit us to raise consumer prices. Thus, we faced a severe profit squeeze if we gave in to the demand of the trade. We decided to fight it out. Those were depressing days as our sales plummeted to zero. Eventually, a settlement was reached after four months, but by then all our profits were gone for the year and we had to declare a loss in our annual accounts.

Adversity, however, has its uses. On an especially dreary morning during the crisis, the answer to our problems came as a flash of insight from one of our brilliant Gujarati managers, Bharat Patel. As though he was thinking aloud, he asked, 'What if our products were classified as Ayurvedic rather than as Western medicines—how would that help?' Our R&D manager, a Tamil Brahmin named Dr T. Rajgopalan, decided to humour him. 'If Vicks Vaporub and our other Vicks products are all natural, herbal formulas, why can't we reclassify them as Ayurvedic?' Our Bengali finance manager, S. Bhattacharya, picked up the thread, 'If that were possible, then we might escape price control.' Our Marwari company secretary, Mansukh Bangard, added another brick to the castle in the air: 'We might also escape from the clutches of the chemists and distribute our products in all sorts of stores.' We looked at each other in

disbelief. Dr Rajgopalan got so excited that he ran to the Ayurvedic library in Bombay University to check if the ingredients in our products could be found in the thousand-year-old Ayurvedic texts. Bhattacharya and Bangard rushed to our lawyers to confirm if the Ayurvedic system of medicine enjoyed special patronage from the government, and if we could change our registration from Western medicine to Indian medicine. If so, could we expand our distribution to food shops, general stores, and street kiosks and thus reduce dependence on the pharmacists?

To our amazement, the answer from the library and the lawyers was 'yes'. We tried to suppress our excitement; there was a lot of work to be done. Our lawyers thought that our solution was 'perfectly legal, although innovative', but they added, 'It seems too good to be true.' They confirmed that a change in registration would get us out of both price control and distribution control. Moreover, a new registration would also allow us to set up a new plant in a tax-advantaged 'backward area', where we could raise productivity by means of improved technology, better work practices, and lower labour costs. We then went to meet some friendly and objective bureaucrats in Delhi, who were to learn that all the ingredients of Vaporub's formula appeared in the ancient texts. They too felt that the government could not stop us legally. We promptly applied to the FDA office. The regulators at the FDA could not find a single fault with our case and, to our delight, gave us a new registration.

All our troubles seemed to be over at a stroke! Our sales force heroically and rapidly expanded the distribution of our products to the non-drug trade, tripling the outlets that carried Vicks to roughly 750,000 stores. Our dependence on chemists eventually came down to 30 per cent. Consumers were pleased that they could buy our products at every street corner. We quickly built a new plant near Hyderabad which had no union and whose productivity turned out to be six times higher than our Bombay plant. With higher prices and better costs, we began to invest aggressively in marketing and advertising. Our

after-tax profits rose from 1 per cent to 12 per cent of sales, and we became a blue-chip on the Bombay stock exchange as our share price rose from Rs 30 to Rs 400 within eighteen months. We were careful not to ruffle the government or get too greedy. Technically, the Ayurvedic classification also permitted us to pay a local excise tax. We deliberately continued to pay tax at a higher rate.

The last instalment of this story took place when we decided to return the compliment to the Indian system of medicine. I flew to the US to try to persuade our headquarters to let us establish an R&D centre to investigate other safe and natural Ayurvedic therapies. When I first mooted this idea our senior managers in Connecticut—we had shifted from New York—practically fell off their chairs. Slowly, however, they became comfortable with the idea. I appealed to their sense of history and destiny. To a member of the Richardson family, who owned a major stake in the company, I said, 'Your ancestor in Greensboro, North Carolina discovered the formula of Vicks from his study of Eastern medicine in the 1890s. Today, a hundred years later, he would be proud of our attempts to do the same.' After much debate, I got their agreement, and a cheque for two million dollars.

We set up our Ayurvedic labs in Bombay under the leadership of Dr T. Rajgopalan, who had studied in the United States under a Nobel Prize-winner, and had worked in the Ciba labs at Basle in Switzerland. He began by creating a computerized data bank of herbs and formulas from the ancient texts; he invented a 'finger-printing' process to standardize herbal raw materials with the help of computers; he organized clinical trials in Bombay hospitals to confirm the safety and efficacy of the new products. His team developed two products, which we sold for many years in the Indian market—Vicks Vaposyrup, an all-natural cough liquid, and Vicks Hotsip, a hot drink for coughs and colds. The lab later became a part of P&G's global research network when it bought Vicks in 1986. Unfortunately, the two products never achieved commercial success, and the efforts of the lab were gradually redirected to

solve P&G's global health care agenda. Dr Rajgopalan went on to win much acclaim and many awards and patents.

The story of Vicks in India illustrates how companies create global brands. There is a popular misconception among managers that you merely need to start with a brand name, create a standardized product, packaging and advertising, push a button, and bingo—you are on the way to capturing global markets. Marlboro, Coke, Sony, and Levi's are cited as examples of this strategy. However, if it is so easy why do so many powerful brands flounder? Without going into the standardization vs adaptation debate, the Vicks story demonstrates at least one essential ingredient for global market success: *the importance of local conviction*. If local managers believe a product is theirs, then local consumers will believe it too. Indeed a survey of Indian consumers a few years ago showed that 70 per cent Indian housewives believed Vicks was an Indian brand!

In the US, where the Vicks business started, managers in the 1970s became persuaded that Vicks Vaporub was old-fashioned, 'grandmother's medicine'. Sure enough, the consumer began to feel the same way, and business began to decline. When I moved in 1992 to P&G headquarters, I challenged this assumption. Some managers argued that America had become such a rushed society that mothers no longer had the time to apply a bedtime rub on their children. In the end, they agreed to invest in the brand and they were rewarded, as hundred-year-old Vaporub began to grow again.

Managerial basics, I am convinced, are the same everywhere, in the West and in the Third World. However, you need to do more than push a button on a powerful brand name with a standard product, packaging, and advertising in order to conquer global markets. The key to success is a tremendous amount of local passion for the brand and a feeling of local pride and ownership. Globalization does not mean imposing homogeneous solutions in a pluralistic world. It means having a global vision and strategy, but it also means cultivating roots and individual identities. It means nourishing local insights, but it also means

re-employing communicable ideas in new geographies around the world. The more human beings belong to their own time and place, the more they belong to *all* times and places. Today's best global managers know this truth. They nourish each 'blade of grass'.

It would be wrong to conclude from the Vicks story that managing a global brand is purely a local affair. On the contrary, the winners in the new borderless economy will be the brands and companies that make the best use of the richness of experience they acquire from their geographical diversity. Multinational companies have a natural advantage over local companies because they have talented people solving similar problems for identical brands in different parts of the world, and these brand managers can learn from each other's successes and failures. If a good idea emerges in Egypt, a smart brand manager in Malaysia or Venezuela should at least try it.

The Surat lady's tea kettle became the basis of a national campaign in India. 'One-pointedness' emerged from a hole in the wall in Bombay, but it became the fulcrum on which we built an excellent business over a generation. Advertising for colds during the hot monsoon months seems highly parochial, but it taught us the importance of advertising year round in other countries. The stockist system found applicability in Indonesia and China. Even the Ayurvedic system of medicine might plausibly be reapplied in the form of a safe and efficacious herbal remedy for common, self-limiting ailments in other countries. The Ayurvedic story also taught me that over-regulation has bizarre consequences. Great businesses are built through discontinuous ideas and a good manager, who is one-pointed, knows when to seize them.

9

Lerma Rojo and Taichung Native No. 1

There is life in the ground: it goes into the seeds; and it also, when it is stirred up, goes into the man who stirs it.

—Charles Dudley Warner

My mother remembers fondly her visits to my great-aunts once a year in the country. It was the big event of her childhood, taking weeks of planning and coordination. There was excitement and bustle in our Lyallpur house for days together. The entire family went by train from Lyallpur to Gujranwala, and along the way, at different stops, many relatives would join the train. By the time they arrived, it had become a great big clan party. At Gujranwala station, they piled onto tongas, and amidst much merrymaking, they would head for the village to enjoy the generous hospitality of our country cousins.

Even at that time, my mother tells me, there was a sharp divide in attitudes between town and country. My mother's family considered themselves superior, even though they were not as wealthy as their landowning cousins. This was primarily because they lived in a town, were better educated and spoke

English. My mother tells me that she used to feel squeamish about the hygiene and bathroom arrangements at the farm, but she was very conscious of their money and their generosity. Lyallpur was a 'model town' in British India—what Corbusier's Chandigarh would be to Nehru's India. It was orderly, rationally planned and reflected a spirit of modernity. Our Lyallpur family was part of India's educated, urban upper-caste elite—that is, professionals with status and voice but with little money and economic power. My grandfather used to say that the policies of the Raj, especially the English language, had divided us from our Gujranwala family and the rural elite. We held the status but they had the money.

Agrarian power was different across India's geography, but it rested everywhere with those who controlled the land and its produce. Many of the rural landowners were themselves the creation of British rule. Our country cousins, for example, had acquired wealth because they had shifted to Gujranwala after the building of the canal. In other parts of the country many families came up with the colonial land policy, introduced first in Bengal in 1793 and then extended in haphazard fashion to other parts of the country. It assigned ownership to local landlords in return for rents paid to the East India Company. From these settlements emerged a class of rentier notables—the zamindars in the east and the north and smaller tenurial cultivators, the ryots, in the south and the west. Many zamindars, of course, traced their position to the pre-Mughal days. However, in Punjab zamindars were fewer because land was tilled by independent and vigorous landowning peasant castes such as the jats.

Landowners had profited from the peace and stability of British rule and they were not anti-British in their views. For this reason, the nationalist struggle did not engage them particularly. Indian nationalism was a product of urban stirrings among the educated intelligentsia, men like my uncle Sat Pal. Typically, nationalists were successful lawyers like Motilal Nehru. Mahatma Gandhi's great achievement was to lay a bridge after 1920 between the town and the countryside, but

social differences and the attitudes were never reconciled. These differences remain to this day and explain a great deal about Indian politics. The partition in 1947 changed the circumstances of our cousins and cut our tenuous connection with the countryside. They lost their lands because Gujranwala went to Pakistan and they became poor. Like my grandfather, they too settled down in Ludhiana in 1947, and after a few years, the government partially compensated them for their lost lands, but they never quite recovered their old glory. They could not get going primarily because they were uneducated.

I grew up without any organic link with the village, where two out of three Indians still live. Not surprisingly, this account of contemporary India has dwelled on urban concerns, for I wanted as far as possible to limit my observations to areas of direct experience, or at least familiarity. Fortunately, I got the opportunity to repair this weakness when I started working. Thanks also to an unusual American, Daniel Thorner, whom I met in Bombay, I gained unique insights into the nature of the green revolution—an extraordinary event without which any story of modern India would be incomplete. The lesson I learned from this story is that only individuals make history, and often unknowingly, without understanding the eventual consequences of their deeds. The British would not have possessed India without Clive's stubborn wish to teach Siraj a lesson. India would not have become surplus in food or be sitting on a mountain of grain today were it is not for C. Subramaniam's wilfulness and the unfailing support of Prime Minister Shastri.

I did not visit an Indian village until I was in my early twenties. My boss wanted me to find out how we could sell more Vicks Vaporub in villages and he packed me off on a tour of rural India. I spent a month in Madhya Pradesh, Gujarat, and Tamil Nadu. It was not a good year to go to the villages because the rains had failed and there was enormous anxiety and misery. On my return, I wrote a longish report, saying that getting our products to villages would not be a problem because of a highly developed network of wholesalers. We would need

to subsidize our rural vans until they became self-paying. However, we had to create demand, and for that, I recommended advertising in travelling cinemas ('touring talkies'). This was before television, and to show that it was possible, I took the initiative to negotiate rates and logistics with cinema owners in the districts that I visited. In my report, I also wrote extensively about the condition of the peasants and my boss began to worry that he might have an unpleasant radical in the company.

I was struck by the self-sufficiency of the village economy. The typical village was functionally integrated between agriculture and handicraft industry, with some communal ownership of land, and well-defined social responsibilities for the different castes. I found agriculturists, craftsmen, astrologers, tanners, carpenters, barbers, priests, smiths, petty retailers, musicians, record keepers, headmen, and so on. I counted thirty-two occupations, although not every village had all of them. For the first time, I began to understand Mahatma Gandhi's dream of building modern India along the lines of self-governing village republics. Marx too, curiously enough, had talked about the independent nature of the Indian village, with its blend of agriculture and industry. Marx, among others, had said that the Indian village is self-sufficient because it 'contains within itself all the conditions of surplus production' that guarantee an independent economy to each village. But this independence also made it stagnant and resistant to change, he felt. It bred in the common Hindu an indifference to politics, making him susceptible to despotic rule, and doomed him to conquest by foreigners. Marx thought that Western technology would change all that. The destruction of their handicrafts was the price that Indians would have to pay for becoming modern and joining the flow of world history.

Although I found this self-sufficient community romantic and attractive, Marx had condemned it as closed, stagnant, and a victim of nature. In a vitriolic passage he said, 'These idyllic village communities . . . had always been the solid foundation of oriental despotism . . . they restrained the human mind within the smallest possible compass, making it the unresisting

tool of superstition, enslaving it beneath traditional rules, depriving it of all grandeur and historical energies.' Although Marx denounced British rule in India, calling it 'swinish', he approved of its modernizing influence. British machine-made textiles might destroy Indian hand-made cloth, but they would undercut India's stagnant village economy and society. 'By blowing up the economic basis of India's villages, Britain was producing the greatest, and to speak the truth, the only social revolution ever heard of in Asia,' he said. Marx predicted that 'modern industry, resulting from the railway system, will dissolve the hereditary division of labour upon which rest the Indian castes, those decisive impediments of Indian progress and Indian power'.

Mahatma Gandhi had the opposite prescription for the Indian village. He wanted a revival of village handicrafts and industries. Only thus would the villager attain gainful employment and dignity. He admired the simplicity of village life and did not wish to alter its basic character by multiplying the villager's wants. He sought, therefore, to promote hand-spinning, hand-weaving, hand-pounding of rice, hand-grinding of corn, traditional oil pressing and gur-making instead of factory-made oil and sugar. 'The traditional old implements, the plough and the spinning wheel, have made our wisdom and welfare,' he said. 'We must gradually return to the old simplicity . . . The railways, telegraphs, hospitals, lawyers, doctors—all have to go . . . You cannot build non-violence on factory civilisation; but you can build it on self-contained villages.' Unfortunately, Gandhi was going against history. He could not stop the advance of industrialization. His followers, however, made a heroic effort after Independence to implement his ideas. 'Rural uplift' and 'community development' became extremely fashionable words for a long time, but in the end, Gandhian programmes failed and probably did more harm than good because they made us ambivalent. Most Congressmen ritually wore khadi and performed their quota of spinning, but they did not believe in it. They put their faith behind Nehru and the world of machines and a factory civilization.

On 27 May 1964, I was roaming the wilds of Madhya Pradesh when I heard on the radio that Jawaharlal Nehru had died. I remember it vividly. I was in our stockist's van that day, going from village to village in Sagar district. Everyone seemed to be in a daze. Many retailers had closed. A shopkeeper told me, 'Son, you want to sell me Vicks when I have lost my appetite for life. My love has gone and left me.' Not since Mahatma Gandhi's death did the nation grieve as it did that day. Every American remembers where he was when Kennedy was shot. The same, I think, is true for Indians of my generation when it came to Nehru's death, or my parents' generation when it came to Gandhi's.

Since the late 1950s we had asked persistently, 'After Nehru, who?' Foreign correspondents had regularly predicted India's descent into chaos after Nehru's death. Now the moment had come and we were worried. I was on a train on 2 June when I heard that the Congress Parliamentary Party had unanimously elected Lal Bahadur Shastri as Nehru's successor in the Central Hall of Parliament. The same afternoon President Radhakrishnan invited Shastri to form a new government. With that, the succession was complete. Everyone in our train compartment was relieved. Some applauded; others smiled. The prophets of doom had been proved wrong. Even Indians like myself, who had been optimistic that the succession would be orderly, were surprised by the mature and dignified transfer of power. We were proud that we had passed an important test of democracy.

In the late 1950s, Selig Harrison of the *Washington Post* had argued, most plausibly, that India would disintegrate. But this has not happened. The dangerous decades have come and gone. There have been regional tensions to be sure, but India remains intact. Nobody, I think, would seriously offer such a thesis today. Those who glibly argued that India was a creation of the British, or a 'geographical expression', as Churchill used to say, were plainly wrong. Clearly, we underestimate the historical unity of India and the strength of its cultural, social, and even economic bonds. Amartya Sen, I recall, once told me

to read the first volume of the *Cambridge Economic History of India* in order to appreciate the extent of social and economic integration that obtained in India before the British.

Lal Bahadur Shastri inherited an economic crisis. There was terrible scarcity of food. Prices had risen, bringing misery all round. Agriculture had been stagnant. Industrial growth had slowed and unemployment was growing. Foreign exchange reserves were virtually down to nil. Worse, there was a crisis of confidence, both in the Congress party and outside. It was not the best setting for a new leader. The Congress party bosses had selected Shastri because he was non-threatening: a modest and unassuming man who was also homegrown—in short, the complete opposite of Nehru. He was less ideological and far more pragmatic. Feeding India was his first priority.

Shastri was aware that agriculture had been neglected. Although he was guilty of ignoring it, Nehru periodically expressed his frustration with the food situation. In 1957, Nehru confessed with his usual candour: 'It is a painful thought that after ten years of Independence, an agricultural country cannot feed itself. It would be wrong for us to blame the gods or the stars or floods and drought. We must recognise that there must be something lacking in our approach which has led to this relative lack of success.' Honest words, indeed. Alas, Nehru's ability to act and manage did not equal his verbal capabilities. If Nehru wanted to focus on agriculture and food and had brought the weight of his office to bear on it, he could have made a difference. For years, the Americans had been gently suggesting that we pay greater attention to agriculture. However, on each occasion the ideologues around Nehru had shot these proposals down, seeing in them an evil American plot to keep India poor and underdeveloped. This, despite the fact that America's foreign aid programme to India—over $600 million a year—was at the time the largest in the world.

India had begun regularly importing wheat from the US in the early 1950s. The Americans were overproducing and had piled up huge stocks in old Second World War freighters. Behind the surplus was the farm vote. Against common sense and their religion of the market, the Americans guaranteed their farmers a support price, which invariably turned out to be higher than the market price. As a result, the government was stuck each year with unsaleable wheat, which had to be stored at huge expense. As a result, they were left with the choice of having to burn it, dump it in the sea or give it away to a country like India. Since getting rid of it actually saved them money, the US passed a law called PL-480, which allowed sales to developing countries in local currencies—it being understood that these were 'blocked funds' and would not be used. In his fine autobiography, B.K. Nehru describes this subterfuge because of opposition in the US Congress. 'The representatives of the people had objected to giving away the taxpayers' money to the foreigner. They had relented only when they were told that the proposal was not to give away anything but to sell it on credit.' The Congressmen were satisfied with this explanation. The American wheat came in especially handy when the monsoons failed in 1957-58 and scarcity reached a danger point. However, we became addicted to PL-480. Between 1960 and 1964, India imported a massive quantity—16 million tonnes. Because of these imports, India began to be seen as a 'basket case' in the world's eyes, especially in Washington.

As usual, Indians were divided on the issue. At one end were the leftists who argued that there was no food shortage—the scarcity was caused by traders and middlemen who were holding back the food in order to let the prices rise and thereby reap huge profits. Their solution was to nationalize trading in foodgrains, have statutory rationing, and put the errant traders behind bars. At the other end were rightists—men like S.K. Patil—who said that the shortage was real and caused by state intervention. Yes, wheat was being hoarded by two million peasants (as well as traders), but it was because they lacked confidence in the government. Traders and farmers were scared by the draconian talk of state trading. Their answer was a completely free market. Let prices rise for the farmers, who would then be encouraged to produce more. In-between these

two extremes was a range of opinion by economists and commentators, who blamed the 'food zones' artificially created by the states, the disincentive to farmers from large-scale American imports, and a variety of other factors. Very few among the Indian elite were grateful for America's generosity; nor did we mute our criticism of American involvement in Vietnam. The problem, in fact, got much worse in 1966 and 1967. We had two consecutive droughts and a real famine threatened. Starvation was prevented only by the arrival of ships from the US with over 14 million tonnes of grain worth more than a billion and a half dollars. At the peak, grain ships were leaving American ports at the rate of one every ten minutes.

B.K. Nehru was our ambassador in Washington at the time and responsible for the logistics of this massive operation. He recalls that suddenly one day the ships stopped. BK panicked. He 'rushed around like a headless chicken'—to Dean Rusk, the secretary of state, to Orville Freeman, the secretary of agriculture, to David Bell, the head of AID, but to no avail. No one knew why the ships had stopped. New Delhi was in a panic and bombarded its ambassador with telegrams. The media got hold of it and the *New York Times* viciously attacked the administration for this inexplicable behaviour. It turned out that President Johnson himself gave the order. He later told B.K. Nehru that his daughter, Lucy, told him, 'What are you doing, Daddy? You can't let the Indians starve at Christmas.' 'I told her not to worry,' said LBJ, 'no Indian was going to starve at Christmas.' The next day the ships started moving again. B.K. Nehru speculated that it might have had to do with Johnson's displeasure over the joint communiqué issued by the Indians and the Soviets when Indira Gandhi visited Moscow, which was critical of US policy in Vietnam. More likely though, he thinks, it was LBJ's way of 'reminding us of the consequences if we failed to pursue with vigour our new agriculture policy'.

When Shastri took over, he rightly felt this could not go on and agriculture reform became his top priority. One of Shastri's first and best moves was to place C. Subramaniam, a dynamic

and intelligent man, as minister of food and agriculture. He had a modern mind and could be counted on to be independent and bold. He learned that Norman Borlaug, an American scientist, had developed a remarkable dwarf wheat in Mexico which could dramatically raise output. He had found his answer. Quietly and patiently, he negotiated with the states for several months. Once he had won their support, Subramaniam announced a dramatic new agricultural strategy. It gambled the nation on this new wheat.

C. Subramaniam was a man in a hurry and he chartered several Boeing 707s and flew in 16,000 tonnes of seed of this miracle wheat. To support his gamble, he organized massive fertilizer imports and invited foreign private investment in fertilizer plants. The rest is history. This dwarf wheat went on to create the famous green revolution and make India self-sufficient in food. Punjabi farmers still speak lovingly of Mexico's Lerma Rojo, one of the earliest varieties to take root on their soil. Indian democracy is not used to bold action by its leaders. Not unexpectedly, there was great criticism in Parliament and the media. Fortunately, the intellectual elite trusted Subramaniam, who also defended his policy with great skill and credibility. Subramaniam also impressed President Lyndon Johnson. 'That Subber Mainyam of yours. He's a good feller,' Johnson told B.K. Nehru. The American President was interested in India's food minister because India had been importing huge quantities of foodgrains every year, and it affected American politics and farm policy.

Subramaniam continued to face enormous opposition from within the cabinet and the Congress party. T.T. Krishnamachari, who was cabinet minister again in Shastri's government, fought hard against the proposal to raise wheat prices by 15 per cent. But Subramaniam was adamant. He insisted that the farmers needed an incentive to take the risk and adopt the new high-yield wheat. He understood that if the new technology was not supported by right policies on prices, fertilizers, land ownership, water and credit, it would not work. He saw it as a package deal.

Thanks to Shastri and Subramaniam, and supported by M.S. Swaminathan, a technocrat, and Sivaraman, a bureaucrat, India implemented the new strategy with vigour. The rewards came quickly. Indian agriculture was finally placed on a growth path, and the stagnation of the colonial period decisively broken. Wheat production rose 5.5 per cent a year for a whole decade from 1967 to 1977. By 1980, official US documents—the *Report of the Presidential Commission on World Hunger*—quoted India as being the 'only developing country in the world which has built a solid system of food security'. In the 1980s India was in a position to donate food to relieve famine in Ethiopia and give a wheat loan to Vietnam. Foodgrains production has risen from 54 million tonnes in 1950-51 to 200 million tonnes now, a growth of 3 per cent a year, and ahead of a 2.1 per cent population growth. In contrast, foodgrains output had grown less than 1 per cent between 1905 and 1945.

On the negative side, the green revolution has mainly benefited the irrigated wheat areas of the northwest, and it has led to widespread disparities with other parts of the country. By 1985, the three northwest states accounted for 83 per cent of the surplus and Punjab alone accounted for 50 per cent. Some people worry that one region has become the breadbasket for the whole nation, and they think this is bad for national unity. I disagree. I believe that this is how it happens in nature, and man should learn to accept nature's limitations. Even industry has a habit of clustering in regions. There is new evidence that the green revolution has moved eastwards to the poorer states and has also included rice, although with less dramatic impact than wheat. Wherever it has gone, the revolution has shown great appetite to absorb surplus labour. This partially explains why 65 per cent of Indians still live in the rural areas, although agriculture's contribution to the GDP has now declined to 25 per cent. This is despite increased mechanization and the adoption of labour-saving practices. In the beginning of the green revolution, it was the larger farmers who took advantage because they had the capital and the ability to take risk. Gradually, it caught on with the smaller

farmers, and in course of time, it has expanded to the poorer regions. Hence, regional disparities in wages also started declining from the mid-1970s. The poor have gained not only because of jobs but also by the decline in the *relative prices* of foodgrains.

Despite this bright spot in an otherwise depressing economic scene, it is odd that Indian intellectuals, especially the powerful left, have been consistently critical of the green revolution. Newspapers in the 1970s, I remember, used to call it a 'sell-out to America'. For years, academics wrote serious essays in the *Economic and Political Weekly* condemning the revolution. Some of the essays were by committed radicals whose hope for a peasant revolution was cut short. They had hoped for the Marxist process of 'immiserizing growth', which would radicalize the lower peasantry and landless labour. At its root, I am certain, their opposition to the green revolution is on account of their hostility towards markets, profit, and capitalists. They rightly saw the transformation as promoting capitalist agriculture. Even Ashok Rudra, normally a balanced economist, wrote, 'The task of developing agriculture is being entrusted to the greed and the acquisitive spirit, which motivates capitalists. *In traditional Indian agriculture greed was located and condemned in the professional moneylender, the speculative trader . . .*'

During the late-1960s, I met Daniel Thorner, an extraordinary American academic, who used to travel extensively in Indian villages, and I learned much from him about the green revolution. Daniel and Alice Thorner came to India in the 1950s partially to escape from the witch-hunts of Senator Joseph McCarthy in the United States. Because Thorner refused to save his skin by naming his leftist friends, he lost his job and a government-funded fellowship for a research trip to India. Undeterred, Alice and he borrowed money from their parents and came out to Bombay, where they stayed with various friends for indeterminate periods until they got their own place on the fifth floor of Shyam Niwas on Bhulabhai Desai Road. They packed their kids off to Rishi Valley School and settled down to do various projects in economics, depending on

whoever was willing to fund them. They quickly built a large circle of friend and admirers. Sachin Choudhary asked Thorner to write on agricultural questions in the *Economic and Political Weekly*; V.K.R.V. Rao invited him to lecture at the Delhi School of Economics; P.C. Mahalanobis, the czar at the Planning Commission, gave them a research project to refine the concepts relating to the 1961 census. Their flat became a gathering spot for young scholars in the social sciences.

Daniel Thorner was an old 'India hand'. His interest in India went back to the pre-Independence days. When he and Alice were in London, they decided to visit the India League's 'scruffy office', where they introduced themselves to Krishna Menon. Soon they became regulars among the band of students, nationalists, and bohemians who gathered at Menon's table late in the evenings at the Strand Corner House to talk about the latest developments. There they formed many deep friendships with, among others, K.T. Chandy and P.N. Haksar, both of whom were studying for the bar. After the war, Thorner completed his Ph.D. thesis at Columbia University on the Indian railways and he went to the University of Pennsylvania, to join Norman Brown's pioneering South Asia programme. There he met the distinguished economists D.R. Gadgil and P.C. Mahalanobis in the study of Simon and Edith Kuznets's Philadelphia home. Among his students were George Blyn, whom he encouraged to work on long-term data on crop production, and Surendra Patel, who wrote his doctoral thesis on agricultural labourers.

When I first met Thorner, it was after one of his long trips to the countryside. He looked tanned and relaxed as he spoke about capitalist stirrings in rural India. He enthusiastically described a boom in agriculture in many parts of India. He painted a hopeful picture of thousands of farmers, big and small, investing in new hybrid seeds, new tubewells, tractors, pump sets, and fertilizers. Not all the investors were farmers, however. He described a visit to the agricultural officer in Karnal district of Haryana, where he met a short, chubby, grey-haired man in his fifties. Although he looked a sedentary sort, he turned out to be the prize cultivator of the area. This model farmer told Thorner that he had been a moneylender. But he gave up this occupation after the elaborate regulations of 1938. After showing him round his fields, he took Thorner across the road to see new plots of Taichung Native No. 1 hybrid paddy. There, Thorner noticed another man, short and wiry, who came up to them in bare feet. He was wearing only an undershirt, drawers, and a wristwatch. Thorner asked, 'Is this your supervisor?' Back came the reply: 'Oh no, this is Lalaji, my neighbour.' Lalaji, he discovered, owned both a tubewell and a tractor. 'For the life of me, I could not recall ever having previously seen an affluent man of mercantile origin out in his fields so scantily clad, taking personal charge of the agricultural work.' Thorner saw the same thing in Meerut and Bara Banki in UP, in Gujarat and coastal Andhra, where many farmers who had earlier given their lands to sharecroppers were now beginning to farm them on their own with help of a tractor, a tubewell, and even a power-tiller.

I had not realized until I met Thorner that the development of a technologically advanced, profit-oriented village agriculture was a very recent phenomenon. In the years down to 1947, large landholders had contented themselves for the most part with giving out small parcels on tenancy. 'It was rare to come across in the days before Independence a genuine capitalist producer who worked his land with hired labour to produce crops for sale at a profit and re-invested his gains in intensifying production or enlarging the scale.' There was a revolution under way.

Thorner's observations confirmed what I had also seen on my visits to the Terai region of western Uttar Pradesh, which lies between the plains and the hills. I had gone there for my company to assess if farmers would be willing to grow mint of a particular variety (called *Mentha arvensis*). From this mint, we hoped to distil oil and eventually make menthol, a decongestant which went into Vicks Vaporub. Alongside peasants, I found many retired military officers who had cleared the wasteland and reclaimed it. They were enthusiastic and scientifically

inclined. Because our mint was potentially a 'bonus' third crop for them, after the winter rabi wheat crop, they became 'early adapters' and set an example for the smaller, more conservative farmers. These farmers had also been the first in the area to plant the Mexican varieties of wheat. When I met them in 1968, they proudly showed me Lerma Rojo, which had created such a sensation on the farms the previous year.

Thorner said that the same thing had happened with grapes in Hyderabad, Bangalore, and a number of places in Maharashtra. I recall that grapes had been a rare luxury in our home in the 1950s, but by the '70s, there was a veritable revolution in the Deccan. Prices dropped year after year, and it became a common fruit on middle-class tables. The same happened to strawberries in the early 1990s. As an early witness of the green revolution, Thorner saw the emergence of an advanced capitalistic sector in agriculture that was similar to the advanced sector in industry. He saw landowners who had never tilled the land take advantage of government subsidies and begin to work on the land themselves after the technological breakthrough with Mexican seeds.

While leftists complained of the growing inequalities, Thorner predicted that these capitalist farmers would one day solve India's food problem. He was right. Wherever it went the green revolution also brought huge purchasing power to millions of small farmers and provided a tremendous boost to the entire economy with 'multiplier effects' upon the output of tractors, tools, fertilizers, consumer goods, banking services, and so on. Whereas the left focused on the failures of the government, especially in land reform, Thorner spoke about the success of capitalist farming. He conceded that there had been widespread evasion of land reforms, but he continued to focus on the positive picture. He wrote that the 'decade after 1947 witnessed an impressive series of land reforms. A sizeable number of landlords, particularly among the absentees who had made their homes in the cities, lost much of their land in favour of their tenants in the villages. Many millions of cultivators who had previously been weak tenants or tenants-at-will were enabled to become superior tenants or virtual owners.' The land reforms, such as they were, had the effect of inducing landed proprietors to undertake cultivation, or, at the least, to make a show of cultivating, if they wished to hold on to some of their ancestral lands.

Thorner had no illusion that landless labourers would obtain land through these reforms, but he found that they benefited through rising opportunities for employment as the new hybrid varieties were more labour-intensive. As yields rose with the Mexican varieties, the farmers experienced labour shortage. Wages rose and they began to import casual workers from other parts, especially Bihar, during the harvest season. Within two years the labour rate doubled from Re 1 to Rs 2 per day (in 1995, it had crossed Rs 50 per day in Punjab and western Uttar Pradesh). Although the chief beneficiaries of this revolution were the owner-cultivators, Thorner contended that rural labour had also shared in this prosperity. 'For many months of the year in Punjab, Haryana, central Gujarat and coastal Andhra agricultural labourers managed to eat two and a half to three meals per day. In the lean seasons they may have to do with a scanty breakfast, some scraps at mid-day and only one proper meal, usually in the evening . . .'

How times have changed! In the 1960s we were a 'basket case'. Now, India comfortably sits on a grain mountain year after year. Stocks in the Central pool typically swell to 35 million tonnes by June every year. This is not a good thing either because it blocks a colossal amount of taxpayer's money and burdens the nation in avoidable inventory-carrying cost. Although we have become a surplus nation, we continue to suffer from a scarcity mentality.

Where do we go from here? Experts believe that we are on the verge of a second green revolution. With our large area of arable land and plentiful sunshine, India can become a major global power in agriculture. First, we must change our 'poor starving country' mentality and regard the WTO and global economy as not an enemy but an ally. Second, we will not conquer the world through peasant farming, but through

technology and capital. Remember, the first green revolution was a technological revolution. Third, technology is now with international companies and they will have to play an important role. All the talk about terminator technology is rubbish. We heard the same talk about Mexican wheat in the 1960s. Fourth, we have to liberalize agriculture and remove needless controls.

Ashok Gulati, the agricultural economist, has spelled out a clear reform agenda. He has demonstrated that India has a global competitive advantage in a dozen commodities. Among these are cotton, wheat, rice, horticulture, and dairy products. We should allow them to be freely exported and imported and link them to world prices. Consumers will benefit from lower world prices and farmers from a larger market. Let us begin by liberalizing one commodity—for example, cotton. We have definite comparative advantage in longer staple, labour-intensive cottons. Once cotton exports explode, we will gain the confidence to make reforms that are more sweeping.

Liberalizing agriculture is not going to be easy because the price of food is politically sensitive. The BJP government lost the assembly elections in 1998 because of onion prices. Today, the government controls both the consumer and producer prices. Although agricultural growth slowed somewhat in the 1990s, the economic reforms have changed the terms of trade in favour of agriculture. With the opening of the industrial economy, the relative prices of manufactured goods have declined and agricultural prices risen. Consequently, farmers have increased their investment in agriculture. Freeing some farm exports has also benefited farmers. On the negative side, public spending on agriculture and irrigation has declined. Because the treasury is bankrupt, subsidies on power, water, and fertilizers will soon have to go, but politicians will have to be kicked and dragged before they free agriculture prices.

Agricultural expansion is not enough to conquer poverty. Amartya Sen has repeatedly reminded us that what causes hunger in India is the wide prevalence of poverty. It is the inability of a large number of people to buy enough food, or as Sen would put it, 'to establish entitlement over an adequate amount of food'. He is rightly harsh against dubious claims that the problem of poverty is adequately addressed through the green revolution. He has vividly demonstrated that just raising food output does not solve the problem of undernourished people in India. He has shown that undernourishment is higher in India than in sub-Saharan Africa, especially among the children. The problem relates to the endemic poverty of the Indian masses. Africa is more susceptible to periodic declines and transient famines, but India has a larger proportion of persistent undernourishment and endemic hunger. Although this does not in any way undermine India's agricultural achievement, it is a sobering corrective to our thinking.

The six-billionth child was born some time in October 1999. There were plenty of scare stories in newspapers around the world, accompanied by the usual neo-Malthusian breast-beating about the population explosion. This happens periodically, but the Malthusian nightmare has not happened. Total food output has consistently outstripped population growth, and per capita income of the world has risen since 1945. Malthus was wrong, and food has won the race. Amartya Sen also settled the question of famines long ago by showing that famines are caused by income failures rather than harvest failures. If the government launches a sensible 'work programme' to create purchasing power among the poor, famines can be avoided. If the six-billionth child is born in India, there is a 50 per cent chance that it will be malnourished. But there is every likelihood that its life will improve as it grows older.

All in all, the green revolution is a good story of contemporary India. There is another equally exciting story. It is of a 'white revolution' in milk—about how a terribly deficient India has become the largest milk producer in the world. Again, it was one man, Dr Verghese Kurien, who created this miracle, which in many ways is unique because it is the success story of cooperative farming in a country where cooperatives have miserably failed.

10

Caste

> Distribute the world as you will, the principal question remains inexorable—who is to dig it? Which of us, in a brief word, is to do the hard and dirty work, and for what pay?
>
> —*John Ruskin*

Everywhere people want to feel superior to others. All societies have some sort of hierarchy. But this doesn't mean that they have a caste system. In India hierarchy has been institutionalized, carried much further and lasted much longer. Indian tradition separated the social classes and did not tolerate marriages between them. Neither did it allow them to change occupations, nor allow some to sit and eat together. The question is whether India's deep-rooted obsession with ranking has suppressed our capacity to grow and develop.

The caste system seems to fragment India's social and political life, but does it influence modern economic life? To what extent does caste affect the ability of Indian firms to compete in the world economy? Clearly, having traditional merchant castes that know how to accumulate capital would seem to confer an advantage. Many merchant families have proven the ability to shift from trading to industry. Some

younger sons of the merchant castes are also showing capabilities to move from industry to information technology (although the big success stories in software and information-based services seem to have come so far from the non-trading castes). Having the culturally inherited ability to raise capital and to employ it efficiently would seem to confer advantage even in the information age.

Indians are not good team players. Is caste responsible for our lack of cohesion? Neither are we 'tinkerers' and some people think that this has partially prevented us from creating an industrial revolution. Is our contempt for working with our hands responsible for this weakness? On the other hand, our Brahminical proficiency in dealing with the abstract may be the reason for our emerging success in cyberspace and information technology. Looking ahead into the twenty-first century, it is clear that a nation's economic success will depend more and more on its ability to compete in the world economy. The state is receding everywhere, as country after country liberalizes. The merchant castes, familiar with accumulating and investing capital, ought to be a significant source of competitive advantage in that world. Equally, Brahminical caste traditions might better equip Indians to capitalize on the changed business world of e-commerce and the Internet. These are some of the hypotheses and issues I examine here.

When I was growing up, I was not as aware of caste as other Indians were. This was either because we were an urban, middle-class family, or because we came from Punjab, where caste had weakened from centuries of foreign invasions and the influence of Islam, Sikhism, and Hindu reform movements like the Arya Samaj. Whatever the reason, caste divisions were neither ubiquitous, nor did they structure our everyday life. Our differences were religious. Later, when I began to travel in rural areas for Vicks, I realized that caste indeed was the central organizing feature of social life in the countryside, even though the educated middle and upper middle classes in the cities tended to gloss over it. Caste seemed to divide Indian society into groups whose members did not inter-marry and usually

did not eat with each other, their status decided by who would and would not take water from the other's hand. Everyone within a caste was a brother, and outside it a stranger. Caste varied by region and the relative position of the castes differed from village to village. But everywhere caste rules were rigid, and there was little room for individuality.

In Hindu society the Brahmin (priest, teacher) is at the top of the four-caste hierarchy, followed by the Kshatriya (variously landholder, warrior, ruler). The Vaishya or businessman comes third and the Shudra (labourer, artisan) is last. Below the four are casteless 'untouchables' and tribals. Beyond this Hindu society are the Muslims, Sikhs, Christians, and Parsees. The three upper castes constitute roughly 15 per cent of India's population, and have ruled the country for 3000 years. About half of India is labouring or Shudra caste, divided in turn into hundreds of subcastes. Some are occupational—cobblers and carpenters, for example—others are geographic. More than 20 per cent of the population are the casteless or 'untouchables' and tribals for whose uplift Mahatma Gandhi worked all his life. The remaining 15 per cent of India belongs to other religions—11 per cent Muslim; the rest Sikh, Christian, Parsee, etc.

The common mistake is to confuse the four broad castes (*varnas*) of the ancient literary and religious texts with the thousands of local subcastes or *jatis* which really matter in people's day-to-day lives. There are about 3000 such jatis, and their members broadly identify themselves with the four historical varnas. Some are social in origin; others are occupational; some are territorial. People of one jati often share a traditional vocation, and will not marry or dine outside the jati. As they become prosperous, jatis also rise in the social scale from one varna to another. For example, oil-pressers in Bengal upgraded themselves a couple of generations ago. Carpenters in one district of Punjab enhanced their status. Low-caste Ganthis became textile traders in Surat. Curiously, the conversion to Buddhism, Islam, or Christianity does not necessarily liberate one from the caste system. In the villages,

Muslims and Christians carry on as before as Muslim and Christian untouchables.

Diversity is India's most vital metaphor. Apart from caste and religion, linguistic states also divide it. It is, thus, a multinational nation. In a sense, it is what plural Europe would like to be—a united economic and political entity in which its different nationalities and minorities continue to flourish. India's diversity is the result of historic migrations and wanderings of many peoples and tribes who came here over thousands of years and made it their home. An anthropologist described the subcontinent of India as 'a deep net' into which various races and peoples of Asia drifted over time and were caught. The tall Himalayas in the north and the sea in the west, east, and south isolated this net from the rest of the world and this led to the development of a unique society and the origin of the caste system. It has made it possible for such a vast variety of people to live together in a single social system over thousands of years. It has proved capable of absorbing new intruders. Caste is thus a natural and organic response to geographic and historic circumstances.

Observers have often noted the tolerance of Indians. They are surprised that people of such diversity can live together in reasonable harmony. The answer seems to lie in the caste system. In this system 'a group's acknowledged differences . . . become the very principle whereby it is integrated into society. If you eat beef, you must accept being classed among the untouchables, and on this condition your practice will be tolerated.' Some academics have argued that caste is an artificial category, invented by imperialist Europeans, to simplify the character of Indian social life for the purpose of legitimizing colonialism and to establish European cultural and political supremacy. It is true that some nineteenth century scholars (like James Mill) did paint an overly simplified and rigid picture of caste in India that is plainly inaccurate, but to conclude that caste is a social construct of the imperialist West, and must therefore be dismissed, is silly. Travellers to India—from the Chinese to the Arabs in ancient and medieval times—

consistently observed and described the caste system. Indian nationalist leaders have inveighed against the evils of caste for a hundred years. Indian and foreign anthropologists and social scientists have made detailed studies of caste. Plainly, caste is indigenous. It is an evolving institution; it varies from one part of the country to another—more rigid in some areas and flexible in others—and it impacts modern life in different ways.

In recent years, sociologists have challenged the old stereotype of the caste system as closed and rigid, which did not allow individuals to change their hereditary occupations. G.S. Ghurye showed that administrative and military jobs were always open to all castes. So was farming, except to Brahmins, who were not expected to touch the plough. He pointed to evidence that 'untouchables' like chamars had entered traditional jobs such as weaving. He studied a village in Maharashtra (which his students restudied after a twenty-year gap in 1954) and showed that all the low castes in the village had taken to modern occupations. Andre Beteille proved in 1965 that the caste of an individual in a Tamil village no longer inhibited him from adopting a modern occupation. Other sociologists have confirmed that 'untouchables' have often given up their menial jobs in favour of carpentry, blacksmithing, and white-collar occupations.

Adrian Mayor studied the same village, Ramkheri, in central India in 1954 and 1992. He found that most of the artisans had changed their occupations, except carpenters. Many lower and middle-caste farmers had become commuters to the neighbouring town of Dewas, where they had found jobs in textile and engineering companies, in the State Electricity Board, and also become teachers, bus conductors, and security guards. Others had found new occupations in the village as repairers of pumps, televisions, and bicycles, and also become agents of cattle feed, seed, and fertilizer companies. I had the same experience in Bartoli village in western UP, where a young college-educated boy of chamar caste insisted on starting a business making steel trunks in nearby Khurja.

There are at least two cultures in India. The first is primarily rural and is dominated by traditional Hindu beliefs; the second is an urban elite culture, more modern and national in its outlook. It is often not easy to separate the two cultures, but I have always assumed that caste is the last thing on the minds of modern professionals who manage India's companies. Yet, Indian business is overwhelmingly family run. The business families are socially conservative and have tended to hire employees from their own community and caste. The Birla companies are filled with Marwaris. Even in the Tata companies—the most professionalized group—it is surprising to come across a disproportionate number of Parsees. The reasons are understandable. Business requires trust, and a kin or a familiar name from one's caste is likely to be more trustworthy. Traditionally, Indian merchants engaged in trade cover vast distances and a caste member, whether an employee or an agent or a business partner, adds to one's comfort. The Marwari 'great firms' in the nineteenth century had business networks in China and Central Asia and transacted vast sums merely on the merchant's word. Naturally, they looked to their own.

Between 1960 and 1990, when labour became militant, some business families began to hire workers from their own community, thinking that one's caste brethren would be less hostile and more pliable. In the pro-labour socialist environment of the 1970s, a superintendent in a Bombay company told Narendra Panjwani that he preferred to recruit new workers through reliable channels. 'The man coming from the employment exchange is a total stranger to us. Newspaper advertisements are all right in the case of officers' and engineers' posts. But in the worker's case our experience has been that it is safer to take in a person coming in through a person we know. These workers—they can misbehave, damage machinery or may even be violent rioter-types. At least when we recruit someone we know the man acting as a link takes moral responsibility for the newcomer.'

Loyal employees from one's caste also helped industrialists

to negotiate the onerous rules of the Licence Raj. Many companies used to pre-empt competition by filing multiple applications in the name of trusted employees. 'They needed trustworthy managers who could keep their firm's secrets.' The socialist system ensured that every businessman would break some law or the other every month. Hence, it was important to have members of one's caste and kin in sensitive positions. With liberalization in the 1990s, the situation changed. Competition became fierce and survival was at stake. Business families increasingly began to look outside their caste for talent. In some functions, like marketing and product development, there was a veritable scramble for professionals, and salaries multiplied manifold. Caste loyalties seem now to be diminishing as businessmen recognize that they must have the best person for the job, no matter what his caste.

The managers in my company came from different castes and different parts of the country. While hiring a new employee in our company we were unaware of his or her caste. We recruited the best person for the job. I discovered that no two senior managers on our management committee came from a single state, nor did they share a single regional language. Hence, all our work was in English. Most of our managers were Hindu, but we also had Muslims, Christians, and Parsees. Other multinationals in India share this diversity. So, in fact, does the government. Government jobs have always been based on competitive exams. This is also true in banking, medicine, law, engineering, and jobs in colleges and universities.

Despite this, however, most managers and professionals in India come from upper-caste backgrounds. The artisan castes seem to dominate the supervisory and skilled workers categories, and unskilled workers are mainly drawn from the lowest castes. Sociologists call this 'caste clustering'. Caste is especially important for underprivileged low-caste workers because they lack the education and other resources and must depend on their caste linkages to get a job. The reason is simple. The upper castes were the first to seize the opportunities to get educated, and with education came jobs in the modern

professions. This has been true at least since my grandfather's time. There has never been a significant 'caste barrier' to entry in modern jobs, despite the myth perpetuated by backward-caste politicians. Education has always been the answer to raising the backward castes, and not reservations and quotas, as the political movement of the backward castes has been trying to do. Yet, not a single backward-caste politician talks of schools. A more vigorous rural education thrust by the government would have ensured greater equality of opportunity.

Sentiment against caste has been gathering among modern Indians for more than a hundred years. Nationalists railed against the caste system and wanted to eliminate untouchability. It was partly because caste hindered economic advance. But it was mostly a humanitarian desire to improve the lot of the low castes and to send a clear message to the agrarian high castes that this system is inconsistent with a modern society. Once India became politically free in 1947, our liberal-minded leaders lost no time in abolishing untouchability and making its practice a criminal offence. Wide-ranging affirmative action programmes were launched and roughly 20 per cent of seats were reserved in colleges, universities, and jobs in the public sector and the government. The 'untouchables'—they prefer now to call themselves Dalit, meaning 'the oppressed'—were given generous scholarships and efforts were made in all states to ensure their political representation. In this manner, the new nation attempted to atone for centuries of injustice.

However, one cannot legislate away thousands of years of bad behaviour, and prejudice persists. Barriers are breaking down and fading in the cities where the modern economy requires a high degree of interdependence across occupations, but in rural areas competitive politics and polls have created 'vote banks' and instead strengthened the consciousness of caste. Caste has been aggressively used to gain power and promote the rise of the lower castes, especially in the Hindi-speaking north. It has also led to clashes and violence between the castes. There is an ongoing caste war in backward Bihar in which massacres of both Dalits and upper castes have taken place.

Curiously, this competition between castes may actually be destroying its fundamentals. The caste system was based on interdependence and acceptance of one's status. Once castes believed that they could rise and be enriched through the competitive politics of democracy, they no longer accepted their lower position and their traditional relationship of dependence in village society. They are now in competition with the higher castes and the old equilibrium is disappearing. They have formed caste associations and deliberately use caste to enlarge their territorial reach in order to increase their power. They have begun to behave like modern interest groups, competing with other groups, unlike the old status groups.

After the abolition of untouchability in 1950, the most dramatic development related to caste occurred in 1990. Vishwanath Pratap Singh, the aristocrat-turned-politician (and able finance minister under Rajiv Gandhi), needed an electoral platform to differentiate himself from other politicians. Socialism had run out of steam. Mrs Gandhi's populism had been discredited. The BJP had appropriated the religious platform. The old Gandhian path had limited appeal. Corruption was not a sustainable competitive advantage because voters believed that *all* politicians were corrupt. V.P. Singh looked for a gap, and he found it in the backwardness of the 'other backward castes' (OBCs). The 20 per cent Dalits and tribals had already found a voice in politics and there were programmes in place to lift them. The 15 per cent upper castes had looked after themselves nicely for 3000 years. It was the in-between Shudra majority, 50 per cent of the population—the milkmen, barbers, cobblers, carpenters, goatherds—who lacked a voice in politics.

V.P. Singh made the most desperate move of his career in 1990. He dug up a government report by a man called Mandal that justified affirmative action for the 'other backward castes' and he promised reservations for them. The OBC movement spread like wildfire in the north Indian heartland. The upper castes were horrified. Suddenly, another 50 per cent government jobs and places in colleges might be denied to them. With 20

per cent of the jobs already reserved for the Dalits, they realized that if the OBC demand succeeded only 30 per cent of the future seats would be available on merit. It was an invitation for a caste war. And it came. Thousands of students led demonstrations, and dozens burned themselves in public. In the end, their sacrifice was to no avail. The logic of the ballot box was too strong. None of the political parties dared support the students. After a few months, the rebellion died and students went back to classes. V.P. Singh, as Prime Minister of a coalition government, tried to fulfil his election promise, but his attempts to increase reservations became mired in the courts. However, the succeeding Congress government of Narasimha Rao seized the opportunity to win the OBC vote. It enacted legislation raising the reservations of OBCs by 30 per cent. Thus, 50 per cent of government jobs and seats in colleges are today not based on merit.

There is no doubt that the Dalit and OBC movements are bringing about a social revolution in north India. The 1996 general elections showed that power was rapidly shifting from the upper castes to the backward castes, especially in populous UP and Bihar. Rajasthan and MP are unlikely to remain insulated from this social churning. In the south, the social revolution is much further along, where social and political power passed from the upper to the lower castes decades ago.

After fifty years of reservations, Dalits still suffer some discrimination, but the old untouchability is virtually gone. Elections have put them in Parliament, and reservations have given them jobs in the bureaucracy, the police, and the public sector. They now have their own political parties. The President of India is a Dalit. So are a number of ministers. Other backward castes are no longer a persecuted minority; they are the majority. Earlier, they suffered caste oppression, but now democracy has converted their advantage in numbers into enormous political clout. As a result, there is continuous clamour for more quotas. The original aim of reservations was to accelerate the rise of the backward castes. It is now a sectarian tool used by backward castes to demand a share of the patronage.

Having said that, the fact remains that half a century after Independence the Dalits and some of the backward castes are still the most wretchedly poor, the most illiterate, the most exploited, and the most disadvantaged in India. The answer to their plight in the long run is education and the market. The state has done its bit by giving them protective discrimination through quotas. But quotas are at best a temporary palliative. For jobs in the future are not going to grow in government and the public sector but in the market economy.

For the first time in history, India has begun to extend justice to people lower down. People at the bottom never had rights before. They only had oppression, especially in a state like Bihar. The middle class is appalled that they have thrown up politicians like Laloo Yadav, who is under investigation in a 'fodder scam' involving Rs 1000 crore. Today India is ruled by dozens of such politicians. V.S. Naipaul says, 'You can't get people from Bihar behaving beautifully. When the oppressed have the power to assert themselves they will behave badly.' He thinks that it will require at least a couple of generations—once they begin to trust institutions—'before people in that situation begin to behave well. Meanwhile, we have to live with messiness.'

On the face of it, caste ought to kill enterprise. It segments human experience for generations and fragments society. Its inherent conservatism ought to destroy creativity and experimentation. It gives the monopoly of knowledge to Brahmins and the monopoly of risk-taking to banias. It delegates manual work to the lowly. In such a society, how can innovation and capitalism flourish? Karl Marx believed that caste would come in the way of modernizing the Indian economy. But he also predicted that caste would eventually die out because 'modern industry, resulting from the railway system will dissolve the hereditary division of labour, upon which rests the Indian caste'. That did not happen, but neither did an industrial revolution.

Max Weber, the German sociologist, also concluded that caste would have a negative effect on enterprise. He argued that 'India's caste order formed an obstacle . . . [A] profound estrangement usually exists between the castes, and often deadly jealousy and hostility as well, precisely because the castes are completely oriented towards social rank.' Weber contrasted India's caste society with the class differences and tradesmen's guilds in pre-modern Western Europe. The ethic of Christianity, he argued, united European society into a social and religious fraternity and this led to a common civic life. This in turn helped create a capitalist society and the classes and guilds did not prevent the flowering of mercantile towns. In India, however, the Hindu religion sanctioned the divisions of the caste system. These divisions, he believed, would prevent cooperation and lead to poor cohesion in Indian society.

Although both Marx and Weber were wrong in their conclusions, Weber raises an important issue with regard to teamwork. Modern economic activity depends vitally on cohesion. That Indians do not combine well is well known. Is the caste system responsible for our inability to cooperate? With all our triumphs at my company, Richardson Hindustan, I failed to build a cohesive management team. Poor teamwork at the top had the most devastating consequences on our younger managers. Like most companies, we were functionally organized, with top managers heading the key departments—marketing, product development, finance, sales, production. Because the heads of the departments were intent on building empires, there were constant and futile battles over turf. The younger managers would often get caught in the crossfire and become victims. Worse, they would emulate the damaging behaviour of their seniors. We conducted a series of 'team-building workshops' which had a positive effect on behaviour, but the effect was temporary. After a few months of good conduct, we would begin to fight again.

I felt disheartened. I thought I had failed as a leader, and I had the most terrible doubts. Perhaps I was incapable of building a team. I talked to other heads of companies in Bombay, and to my surprise, I discovered that most of them

faced the same problem. Temporarily, I felt consoled. At least, I was not the problem. But the issue would not go away. During the twelve years that I led Richardson Hindustan and Procter & Gamble India poor teamwork was a festering, chronic disease.

After leaving P&G, I have been consultant to half a dozen Indian companies, and I have concluded that all Indian enterprises suffers from this problem, some more and some less. I am concerned that this problem may be a serious source of national competitive disadvantage. It is not limited to the commercial world; it infects all Indian organizations. Whether it is a university, a hospital, a village panchayat, or a municipal board, it is beset with dissension. To a lesser extent, even the armed forces seem to suffer from poor teamwork.

The paradigmatic story concerns two Indians who meet in New York and decide to form an Indian Association. When a third arrives, they form a Tamil Association; with a fourth comes the Bengali Association. And so on, until there are fifteen regional associations and the old Indian Association is forgotten. One day someone has the 'brilliant idea' to join the regional associations into an Indian Association. It's a funny story, and it makes us laugh, but it also illustrates the divisiveness in our character. A Swiss manager of a multinational company, who was associated for many years with its Indian subsidiary, told me that a sure way to inaction is to put two talented Indians on a task force. They will never agree and brilliantly argue the proposal to death.

What is the cause of our divisiveness? Is it our diversity? Is it the caste system? Oscar Lewis, the noted American anthropologist, studied a Jat village near Delhi. He found that the village was more or less permanently divided along rival caste lines. The more powerful group was led by the dominant caste, but supported by clientele recruited from its dependent castes. The factions seemed to be constantly fighting each other. Other sociologists have confirmed that discord and factionalism pervade village life in different parts of the country.

However, caste alone cannot explain dissension. I have noticed that in the most homogeneous Marwari companies, brothers and nephews incessantly fight with each other. To some extent, jockeying for power exists, of course, in every company everywhere. It is natural for directors to build empires, quarrel over turf, and squabble in boardrooms. However, in good companies around the world these conflicts are contained so that they do not hurt competitiveness. In India, they tend to spill out, and when they do the effect is devastating.

In the nineteenth century, British colonialists used to blame our caste system for everything wrong in India. The nationalist leaders followed suit in the twentieth century. Mahatma Gandhi constantly told Indians that they were undeserving of independence unless they reformed their society and rid it of untouchability. I was taught as a child that caste was evil, responsible for our backwardness. Now I have a different perspective. Instead of morally judging caste, I seek to understand its impact on competitiveness. I have come to believe that being endowed with commercial castes is a source of real advantage in the global economy. Banias know how to accumulate and manage capital. They have the financial resources, and more important, financial acumen. They have an austere lifestyle and the propensity to take calculated risks. They have proven their flexibility of mind as they have graduated from trading to industry. These constitute significant strengths. Joel Kotkin demonstrates these strengths in the case of Palanpuri Jains, who have used their caste and family networks in wresting half the global market for uncut diamonds from the Jews.

After the economic reforms, our business houses have acquired new respectability and are on the rise socially. More and more people in our society want to emulate them and become entrepreneurs. Making money has become respectable. There is a huge change in people's attitudes, and intellectuals call it the 'baniaization of Indian society'. The children of the Brahmins and Kshatriyas no longer view the civil service as the career of choice. They want to get an MBA and go into business. Indeed, business schools are one of the biggest

growth industries. Money and not power is what motivates young people. The high priest of a south Indian temple says that this unholy mixing of caste occupations is 'deplorable . . . [It is] the beginning of the end of Hindu society.' There was a redefinition of Japan's merchant class during the 1868 Meiji restoration. It would lead to Japan's transformation from an underdeveloped group of islands into a prosperous and modern society. India is in the midst of a social revolution too, and our new entrepreneurs in software, e-commerce, pharmaceuticals, and other knowledge industries are predominantly emerging from the non-commercial castes.

Many Indians blame the caste system for our contempt for manual labour. As mentioned before, Brahmins monopolized learning and looked down on Shudra artisans, who worked with their hands. Since Brahmins were role models, these attitudes filtered down to the other castes. Thus, the worlds of knowledge and labour remained separate and inhibited technological innovation. It is true that when it comes to product development and innovation Indian companies have clearly failed. Our goods are shoddy, and our businessmen rarely know how their product works. Their standard response to product improvement is to try to buy technology or hire a scientist. Unless Indian companies overcome this historical weakness they are not going to survive the competitive environment after the 1991 reforms.

The Japanese businessman, in contrast, is obsessed with product improvement. Japanese entrepreneurs have had great interest in technology since the Meiji times. It is, of course, true that the Japanese mania for product superiority is spurred by a more competitive home market. Whatever the reason—caste prejudice or lack of competition—the Indian business class deserves scorn for its record of innovation. Equally, the artisan is blameworthy for not improving centuries-old products and practices. Indian roads are filled with cycle-rickshaws that break the driver's back and primitive motorized three-wheelers that pollute the air. From the household broom to the bullock-cart, no object of daily use has been improved for centuries.

If the Brahminical heritage prevented us from 'tinkering' and slowed our response in the industrial age, it may have positive consequences in the knowledge age. Ever since Indians started to succeed in Silicon Valley and Bangalore people have wondered why have we been more successful in software and information-related business than in the old smokestack industries. My friend and a former editor at the *Harvard Business Review*, Tom Teal, suggests that this may well go back to caste. He hypothesizes that Brahmins have had thousands of years of experience in dealing with abstract philosophical and spiritual concepts of the Upanishads. This may explain why Indians are especially good at mathematics and theoretical physics (as opposed to experimental physics). Indians invented the zero. The information age, thus, plays to our strengths. After all, cyberspace, like spiritual space, is invisible. Our core competence may well be invisible. We may actually skip the industrial revolution and leap right into the information revolution.

To summarize, India's caste system is in a state of transition. Caste certainly does not pervade modern economic life in the way that it structures rural social life. The diffusion of economic growth is breaking the old caste–occupation link for good. The old stereotype of village occupational rigidity was never entirely accurate. Lower castes had always shown the capability of 'moving up' or changing occupations. Modern organizations in the cities have usually hired people based on merit and exams. Despite that, there is 'caste clustering' and a surprising number of companies have a preponderance of caste brethren (for example, Marwari companies are filled with Marwaris). This has now rapidly begun to change, as markets have become competitive after the economic reforms. Political elections have created vote banks, the lower castes have used politics to rise socially, and there is a social revolution under way, especially in the backward northern states. Its biggest prize is that half the government jobs and places in colleges are now reserved for the lower castes. Universal adult franchise, economic growth, and affirmative action are rapidly transforming our deeply

stratified society. One day, perhaps, as the great scholar of caste, M.N. Srinivas, predicted before his death, caste will be symbolic of ethnicity rather than hierarchy.

Our commercial castes ought to give India a competitive advantage in the global economy, but the old business houses still have to prove that they can overcome their historical weaknesses. It is not clear if caste is responsible for poor teamwork. But our Brahminical caste heritage should play to our advantage in the knowledge economy of the twenty-first century.

11

Betrayal

Though those that are betrayed
Do feel the reason sharply, yet the traitor
Stands in worse case of woe.

—*William Shakespeare*

Lal Bahadur Shastri died suddenly of a heart attack on 11 January 1966, nineteen months after he became Prime Minister. He died in the fabled city of Tashkent after signing an agreement with Pakistan, giving up significant territorial gains in the victorious autumn war, including the strategic Haji Pir Pass, gateway to the Kashmir valley. I was at my parents' home in Chandigarh when we heard the news, and like the rest of the country we were in a state of shock. Shastri had begun to grow on us. Although we did not want him to part with the pass, we felt that he had displayed qualities of statesmanship. What endeared Shastri to us was a disarming absence of ego, and this had also made him an effective leader.

A great deal died with Shastri that day. Contrary to what most people think, Jawaharlal Nehru's death did not end an era. It was Shastri's death which did. Although he had been a cabinet minister for many years in the 1950s, he was poor when

he died. All he owned at the end was an old car, which he had bought on instalments from the government and for which he still owed money. He had set high standards. He was the only railway minister who resigned office following a major train accident as he felt compelled to own moral responsibility. After Shastri's death, values departed from our political life and governance became amoral. A new personalized style of politics came into being. Institutions began to erode, the biggest victim being the Congress party. More than values, Shastri's early death lost us the opportunity for pragmatic policies in our economic life. Had he lived our nation would have done far better and more people would have risen out of poverty. Alas, he did not, and what might have happened must remain a counter-factual of history.

There was high drama in the Congress party over Shastri's succession. Rumours flew and fortunes changed by the hour. The barrel-chested, taciturn president of the Congress party, K. Kamaraj, turned out to be the kingmaker. He was a brilliant strategist but his strength lay in the absence of ambition—he did not want to be Prime Minister. We respect that in a man. Neither did he know Hindi, nor English—he spoke only Tamil—and he must have realized that this would be a terrible handicap. He had another quality, unusual in a politician—he did not speak. He could spend hours listening without saying a word, and people thought him wise. Again, Morarji Desai was the leading candidate. We did not like Morarji because he was rigid, authoritarian, aloof, with countless silly fads. Neither did the powerful Congress bosses, known as the Syndicate. However, they had different reasons. They wanted someone pliable, whom they could control from the back room.

To stop Morarji, the Syndicate tried to draft Kamaraj. He stood firm. Morarji wanted to have a proper election among the Congress members of Parliament. The Syndicate was afraid that Morarji might actually win a contest and kept stalling a poll. In its defence, it kept saying that it wanted a unanimous candidate, and charged Kamaraj with determining who that would be. We may not have liked Morarji, but we liked the

Syndicate's methods less. We supported Morarji's democratic right to an election. From these machinations Indira Gandhi's name emerged. The political bosses favoured Jawaharlal Nehru's daughter because they thought a frail and inexperienced woman would turn to them for advice. We disliked her candidacy because it smelled of dynasty. In the end, after endless consultations, Kamaraj revealed his hand—he proposed Mrs Gandhi's name as the 'unanimous choice of the party'. Since she had the aura of the Nehru name, he said, she offered the best chance of delivering victory to the party in the coming general election. However, Morarji remained firm on an MPs' poll. Kamaraj then swung into action and began to build pressure. He got the state chief ministers to come out publicly in her favour. This created a bandwagon effect. Finally, a secret ballot was held on 19 January in the domed Central Hall of Parliament among the Congress MPs and Indira Gandhi won 355 to 169.

Lal Bahadur Shastri had been full of common sense. He had come to feel that our elaborate system of controls had become heavy and self-perpetuating. For every control that failed, we needed two more to shore up the original one. In the complex, non-monolithic government that India had become, controls were causing delays, waste, and enormous harm. He thought it was time to loosen up, and he entrusted the task to L.K. Jha, his principal secretary. The *Times of India* ran a story on the front page in early December 1965 saying that the government was contemplating liberalizing some of the less useful controls—this was the first time I came across the word 'liberalization'. Four days later, there appeared another story in the same paper. Unfortunately, a month later Shastri died, and with him died the prospects of liberalization. Mrs Gandhi, who was ideological like her father, brought in her leftist advisers. She replaced L.K. Jha with P.N. Haksar. Mohan Kumaramanglam, the former communist, began to play a decisive role in policy making. They quickly buried the liberalization initiative. Many years later, L.K. Jha confirmed the veracity of the *Times* report—he said that there had been a

serious attempt to deregulate the industrial economy under Shastri.

It had become clear that Nehru's economic path was delivering neither growth nor equity. Shastri had done some fire-fighting, particularly in freeing agriculture, and he had tried to shift the tone towards the market. But he died before he could change course. We persisted on the wrong path in the 1970s and '80s even when we knew that we were failing and the 'mixed economy' was leading to a dead end. In fact, Indira Gandhi's government became even more rigid, introduced more controls, and became bureaucratic and authoritarian. It nationalized banks, discouraged foreign investment, and placed more hurdles before domestic enterprise. Some East Asian countries, in the meantime, began to make a decisive break with the past and adopted export-oriented policies that did not distort market prices.

India's tragedy is not that we adopted the wrong economic model in the 1950s, but that we did not reverse direction after 1965. Industrial growth (not economic growth) plunged from 7.7 per cent a year between 1951 and 1965 to 4 per cent between 1966 and 1980. India withdrew further from world trade, raised tariffs and taxes even higher, and became one of the worst performing developing countries in the 1970s. Rakesh Mohan, the head of the National Council of Applied Economic Research, has conservatively estimated the economic cost of Mrs Gandhi's follies at 1.3 per cent lower per capita GDP growth per year. Put another way, the per capita GDP would have been at least 80 per cent higher in 1990—$550 instead of $300. With some modest liberalization in the '80s, industry did begin to grow, but experts agree that '1966–1980 is effectively the dark period for the Indian economy'. Ironically, Mrs Gandhi ruled in the name of the poor—'garibi hatao' was her winning slogan during elections. But in the end, she suppressed economic growth and destroyed the chances for the poor.

Experts came up with different answers about what was going wrong and why growth was decelerating. Indira Gandhi's apologists argued that the terms of trade had changed in favour

of agriculture after the green revolution. This is patently incorrect, for these terms did not change until the 1991 reforms. Others said that inequalities had grown and the market for mass-consumption products had shrunk. Hence, overall demand was the problem. This hypothesis, too, seems false, for the Gini coefficient, which measures income inequality, does not support it. A third explanation was the lack of capital. This too cannot be true, for the most dramatic change in the post-Independence economy has been the rise in savings rate and capital formation. India's savings rate rose from about 6 per cent in 1950 to 14 per cent in 1960, 18 per cent in 1980, and to 23 per cent of income by 1990. The investment rate also rose from 17 per cent in 1960 to 23 per cent of national income in the 1980s. This compares well with the advanced countries, although it may not be as high as that of the Asian tigers. Thus, shortage of capital was not the reason for our failure.

The blame lies squarely with the productivity of our investments, as well as their capital-intensive nature. Although we saved and invested, the returns were poor. Isher Ahluwalia, the economist, estimates that the productivity of Indian manufacturing declined half a per cent a year between 1960 and 1985. Capital-output ratio deteriorated because we got poor returns from the inefficient, heavy-industry-based public sector. The private sector did not perform because we had emasculated it with massive controls. Ironically, we had created state-owned companies in part to raise our savings rate. We thought they would give good returns and this would augment the nation's savings. But they failed and they ended up destroying our savings. The growth in savings actually came from private households.

Infrastructure was the other reason for our poor performance. Power, railways, coal, telephones became bottlenecks. Anyone who lived in India in the 1970s and '80s could see the horrendous shortages. There were constant blackouts as power was unavailable. Railway freight suddenly started declining. There were shortages of coal, cement, steel. One seemed to feed on the other. For example, once railways started doing

badly, then coal did not get taken from the coal mine to the thermal plant that made electricity from coal. If enough electricity was not generated, then coal could not be mined. If coal and electric power suffered then the railways could not run. Why the bottlenecks developed was a subject of constant study but insufficient action. A combination of declining productivity and slowing investment was the problem. All infrastructure was state controlled and not subject to market forces. Even cement was heavily controlled. This meant that politicians and bureaucrats set prices and decided when and where to build a new factory. A strong politician could get away with building a power plant in his area even when the shortage was in another area. Or he might build a railway line to please his rural voters when the more industrial areas needed it. He justified it in the name of equity and regional balance. Mismatches quickly came about for the rules of demand and supply were not followed. Hopelessly low prices meant that the state power companies became bankrupt and did not have the funds to invest in new plants or expand existing ones.

Trade unions became powerful because politicians were unwilling to displease their large vote bank. Trade unions wanted to hire more workers, and existing workers to work less. This suited the politicians, for it meant that they could create jobs and please the voters. According to the law, no one could fire a worker for not working. As the work ethic declined, productivity plummeted. Managers of the state enterprise complained, but no one listened. Workers would loiter on the job and often not show up, and the managers could do nothing. Many power plants ran at half their efficiency. Linesmen of the power companies made private deals with small industrialists and stole a third of the power; they 'fixed' the power meters so that their crime could not be detected. A mafia operated in the coal mining area of Bihar and became a law unto itself. Finances of the government rapidly deteriorated and there was no money for new investments. The result was shortages. The amazing thing is that the system did not completely break down.

Our company's salesman in Bengal was a bit of a hero

during the 1980s because his sales were consistently rising. One of the reasons, he said, was his excellent performance from Haldia, where a state fertilizer plant had been set up. Thousands of well-paid workers had lifted the demand for our products. A sparkling new township had come up with bungalows for managers and nice flats for workers. There were wide roads, bright lights, a school, a dispensary, and a hospital, even a subsidized store for the employees. The capital budget of the plant had paid for this middle-class dream. However, the factory never produced a kilo of fertilizer! And this went on for years. The cleaning crew kept the factory clean, the mechanics kept the machinery in good order, and the workshop supplied spare parts. The managers and workers came to work, and the personnel department marked attendance. Everyone was paid, including bonus, and even overtime in some cases. However, they had no work because soon after the factory was built it was discovered that the company was unviable. If they had produced, they would have lost masses of money. It was cheaper not to produce. Yet, they could not close down. Not only was it bad politics to close, the law did not permit it.

The plight of Haldia was extreme, but there were other examples. Another firm, Scooters India Ltd, in Lucknow, was still paying wages to 3000 workers in 1992, although it had not built a scooter for ten years. By the end of the '80s three-quarters of the state-owned companies were losing money. To pay for these losses the subsidy to state enterprises rose from 3 per cent of their income in 1970-77 to 26 per cent in 1980-81. It was 20 per cent in 1988-89.

Prakash Tandon, who wrote the classic *Punjabi Century*, relates a fascinating tale of public and private sectors. Each year he used to take his family on holiday to Kashmir by road from Bombay. One year, he noticed a petrol station had come up on the highway beyond Nasik. About the same time a large public sector factory had also come up twenty kilometres beyond the petrol pump, complete with wide, tree-lined boulevards, spacious homes, schools, hospitals, and sports amenities. The next year, Tandon noticed that the petrol

pump was doing good business and a mechanic's workshop had come up alongside. The following year, he found that a roadside restaurant had also come up whose food was especially popular among truck drivers. A cigarette and paan vendor followed; then a fruit seller; next came a tailor and a general merchant. In less than a decade, a flourishing little town emerged. Meanwhile, the state company began to lose money and in the same period its losses had grown colossal.

The contrast is instructive. In one case, wealth was created organically. A lonely petrol pump attracted entrepreneurs, and they offered services that people wanted. They reinvested their profits and they expanded. Their profits attracted others. In the end, society's wealth was generated from within and it supported a flourishing population of a thousand families. It had all started with a petrol pump! Twenty kilometres away, the state also created a town. However, with one difference—the state destroyed society's wealth.

During these unfortunate decades the number of people who depended on the state expanded enormously. Fully 70 per cent of the employees in India's 'organized sector' (that is, firms employing more than ten workers) received their pay cheques from the government. If one excludes civil servants and the government bureaucracy, 55 per cent of the Indian industrial workforce was on the rolls of public sector companies in 1990. Yet, the public sector's share of GDP was only 27 per cent in 1990. By contrast, China's state-owned firms employed 40 per cent of its industrial workers. The very rapid growth of private enterprise in the '80s following China's reforms means that India's economy is now more socialist than China's.

By 1990, India's planning process had created a large rentier class of state employees in the public enterprises and the bureaucracies of the Central, state, and local governments. This class exercised great power. It mediated every significant decision. It directed society's resources—it decided what to produce, at what price; who would get subsidies, who would get credit; who would get licences. This gave this new class enormous authority over ordinary citizens and the ability to

extract 'rents'—the economist's terms for corruption and bribery. Since nothing happened without some sort of exchange, there also emerged a group of power-brokers who cultivated the ruling class and utilized their contacts for personal gain.

After 1967, India withdrew further from world trade. Our products became shoddier and more expensive, as we raised tariffs dramatically. Actual duties collected went up from 21.2 per cent of total imports between 1960-65 to 54.8 per cent in 1985-90, while exports stagnated around 5 per cent of GDP. We protected our industry with draconian controls that we administered in a ridiculous 'case by case' manner. Ironically, these heavy-handed controls were created to conserve foreign exchange; yet we were in balance of payment difficulties in twenty-nine out of thirty-five years from 1956 onwards. Despite these enormous defects, industry did manage to grow at a little over 6 per cent a year over the forty years from 1950 to 1990, and its share in the country's income doubled from 11.8 per cent in 1951-52 to 24.6 per cent of GDP by 1990-91. But it was not enough for the economy to take off. Although we saved and invested, the returns were poor. Our expenditure on the bureaucracy far outstripped the growth in the nation's income. Predictably, India's position declined in the world and among similarly placed countries. Based on John Page's broad comparative data for the Third World, Rakesh Mohan concluded that 'India was amongst the worst performers among developing countries between 1950 and 1982.'

I sometimes wonder how we could have gone so wrong when we had such brilliant economists. The Delhi School of Economics had acquired a formidable and well-deserved international reputation as a centre of excellence. It had Jagdish Bhagwati doing seminal work on trade; A.L. Nagar was engaged in path-breaking work in econometrics; Sukhamoy Chakravarty was one of the authorities on planning models and one of the first persons to employ Pontryagin's mathematical principles in economics; Tapan Raychaudhari and Dharma Kumar had formidable reputations in economic history; Amartya Sen and Prasanta Pattanaik were world renowned in social choice

theory—with Amartya Sen going on to win the Nobel Prize. However, Professor Jagdish Bhagwati was the only Indian economist of note who tried to rouse Indians to the danger of Nehruvian socialism. His book (with Padma Desai) *Indian Planning for Industrialisation*, was the first comprehensive study of the variety of ailments caused by our left turns of the 1950s and '60s. As the intellectual climate worsened, rather than bang against the wall of intellectual intolerance erected by Indira Gandhi, Bhagwati left to teach first at MIT and then at Columbia University in New York. Amartya Sen also went away to the LSE, then to Oxford, and finally to Harvard.

Apart from fine theoreticians, there were some outstanding practitioners. One of them was I.G. Patel. After important roles in the finance ministry in the 1950s, he became the governor of the Reserve Bank in the Janata government of 1977, and later was head of the London School of Economics. I.G. Patel set high standards of behaviour. At the Reserve Bank, he resisted loan and debt write-offs and did not allow the banking system to deteriorate. However, he became increasingly uncomfortable during Mrs Gandhi's second regime. Just before the 1972 elections, L.N. Mishra, Mrs Gandhi's minister, and his friends rang him up frequently, asking for clearances, which he invariably refused. Later, in 1980, when IG was at the Reserve Bank, politicians lobbied to give a licence to the notorious Bank of Credit and Commerce International (BCCI), the Middle Eastern bank which grew rapidly in the '70s and collapsed in the early '90s. IG suspected BCCI and refused it a licence. However, the minister of state at the time called for the BCCI file, overrode IG and approved the licence. When IG heard about it, he rushed to Delhi and asked to meet the Prime Minister. Because of that meeting, the licence to BCCI was withheld. After Mrs Gandhi returned to power, IG began to feel uncomfortable and he resigned. There were two other Oxbridge-educated economists—Manmohan Singh, who served in important roles in the 1970s and '80s, succeeding IG as governor of the Reserve Bank, and Montek Singh Ahluwalia, who was in various economic ministries throughout the '80s.

Manmohan and Montek later became famous for ushering in India's 1991-93 economic reforms. The troubling question is why these outstanding people did not blow the whistle. They kept serving a bankrupt system for years, providing it with intellectual respectability and support.

My leftist friends were euphoric that day in 1969 when Mrs Gandhi nationalized India's fourteen largest banks. They had always been critical of our banking system. They regarded the banks as 'monopoly capitalists', controlled by a handful of big business houses, who made loans only to their affiliated companies or to their cronies. Mrs Gandhi's purpose in nationalizing the banks was to reorient credit flows to the neglected areas—agriculture, small-scale industries, and small borrowers. She wanted banks to open branches in small towns and villages and bring the average Indian into the banking system. All worthy goals, which she succeeded in achieving. In the next two decades bank branches rose from 8262 in 1969 to 60,190 in 1991—half of them in rural areas—and the average population served by a bank declined from 65,000 in 1969 to 11,000 in 1991. Bank deposits soared from 13 per cent of GDP in 1969 to 38 per cent in 1991 and loans expanded from 10 per cent to 25 per cent of GDP in the same period.

That was the good news. The bad news was that the efficiency of the system sank. Productivity and profitability of banks plunged. By 1990 the banks' gross profits dropped to 1.1 per cent of working funds (without counting their bad debts) and their establishment expenses rose to 2 per cent of working funds. Bad debts—what is euphemistically called 'non-performing assets'—rose to 20 per cent of the credit outstanding. Consequently, most of the public sector banks are bankrupt, especially the rural banks. They have been 'captured' by their employees, the unions, and politicians and it takes my wife half an hour to make a deposit or withdraw money from our local branch.

I once chanced to meet the manager of one of the rural branches of a nationalized bank. It was on the night train between Delhi and Amritsar. We shared our dinner like friendly

travellers, and before I settled down to read for an hour prior to going to bed, he told me a few things about running a rural branch. He was a sincere young man, deeply concerned, and he wanted to unburden himself about his day-to-day problems. Neither he nor his staff, he told me, decided who qualified for a loan. The local MP or MLA invariably made this decision, and orally gave him the instructions. The loan-takers were invariably cronies of the political bosses and did not intend to repay the money. He was given oral instructions that such-and-such a person was to be treated as a 'deserving poor'. Without exception, they were rich. When the loan turned bad, the political bosses disowned any knowledge of the loan or the recipient. Therefore, at the time of the default it was the bank manager's head on the chopping block. Periodically, he received instructions from headquarters to roll over the loan when it was against the rules to do so. These too were delivered orally. He dared not ask for written orders, because the only order in writing would be his transfer to an even remoter location. In contrast, when he or his office gave loans to genuine small farmers and traders, they invariably paid them off. There might be delays, but he always knew the reasons, and he was certain that the money would come back as soon as the crop was harvested.

Even more frustrating was the behaviour of his staff. He did not run the office. The trade union representative decided who did what, who was to be promoted, and who transferred. He tried to promote a lady clerk who was doing exceptionally well. But he was vetoed by the union leader. 'Of what use am I?' he asked me sadly. I deeply empathized with his situation. I went to bed thinking what I might have done in his place. However, I could not find an easy answer. At least in my company I did not have to put up with this nonsense. The next morning, as we were getting off at Amritsar, I suggested to him that he find another job.

Because of nationalization, genuine entrepreneurs have had a harrowing time getting loans. Amrik Singh, whom I met in Bombay, was fed up with the routine of his job and decided

to become a hog farmer. An enthusiastic electronic engineer, he had looked at a number of alternatives, but the rural life appealed to him. His friends tried to discourage him. However, he felt that 'fourteen years in electronics is a lifetime'. Being a serious person he vigorously began studying pigs and soon became quite knowledgeable. He acquired property in a village 105 kilometres away and gave it a nice name, Arcadia Breeders. Having got the land, the next step was to find capital. For that, he approached the nationalized bank in his village for a loan. The bank manager refused. Amrik Singh then asked him for a 'no objection certificate' (NOC), which would qualify him to approach another bank. The bank manager would not issue him an NOC either. After numerous visits, he at last got the manager to relent. 'Submit a report,' he said. 'I will reject it and issue you an NOC.' Amrik Singh protested, 'But if you reject it, no other financial institution will touch it.' Many follow-ups and seven months later, Amrik Singh finally succeeded in getting his prized NOC from the bank manager. He had learned his first lesson: had he bribed the bank manager, he would have got the loan.

After getting the NOC he applied to another nationalized bank for a loan. This took eleven months, and only because of a chance meeting with a classmate at NABARD, the rural refinance bank, which pushed his case. Meanwhile, his costs shot up and he worried if his project was still viable. Finally, he shifted to the village and began constructing sheds for the animals. A month later, the village tehsildar came by and ordered him to stop construction because he could not build on agricultural land. Amrik Singh argued that hog production was an agricultural activity like poultry, and sheds were permitted for the animals. The tehsildar refused to listen. He approached the deputy director of animal husbandry and requested him to clarify in writing that hog farming was an agricultural activity. The deputy director also refused to help. Three months later, he threw in the towel and decided to convert his land for non-agricultural use. For this, he required a no-objection certificate from four different departments. Soon he became discouraged,

running from one office to another. Giving up, he hired a middleman, who promptly bribed the different departments and got him the conversion in less than a month. The same tehsildar signed the order. By now, he had lost six months, the monsoon had arrived, and he could not begin construction, because the labour was deployed in paddy growing. He finally resumed construction after a year's delay.

Amrik Singh also qualified for Rs 100,000 seed capital under a government scheme to encourage entrepreneurs in rural areas. He promptly applied for a loan from the Development Corporation of Konkan. Again, after repeated follow-ups, he got the loan sanctioned after ten months. However, he received only Rs 69,000, because the corporation had run out of money. It seems a large part of the corporation's funds had been spent on the officers of the bureaucracy and in the travelling expenses of politicians. Consequently, the government shifted the power of giving loans to the district industries commission. Two and a half years later, when he had still not received the money, he lodged a complaint with the ombudsman, the Lokayukt of the Maharashtra government. Eight months later, he received the balance amount.

The experience of my pig farmer is no different from that of thousands of young entrepreneurs. In other countries, the entrepreneur's battle is with competitors. In India, the main enemy is the government bureaucracy. Bank nationalization has made matters infinitely worse. The bureaucrat has figured out that an entrepreneur has limited resources; he faces the pressure of time because interest costs mount by the day. So, the government functionary attempts to delay every decision. It is true that many entrepreneurs fail because they are crooked or incompetent, but a large number do not succeed because they cannot cope with the bureaucracy. I am convinced that entrepreneurship in India will not flourish until we get rid of 'inspector raj'. As a citizen, I too have had to seek permissions from the government on various occasions. The last time was when we made the mistake of remodelling our house in Delhi. It took two years, thirty-eight visits and hundreds of phone

calls to the New Delhi Municipal Council and related departments before we got the permission to do so.

To the socialist mind of the 1960s business families had a bad odour. Most people believed that they ran their businesses only for their families' welfare, without any concern for the consumer or outside investors. They thought that business houses were crooked—they did not pay their taxes, they under-invoiced their sales, and they siphoned money out of the business. Parliament was also obsessed with the 'monopoly power' of business houses. Between 1964 and 1969 the government appointed four committees to examine the affairs of big business. They looked into seventy-five business families and did not like what they saw. Each year the Department of Company Affairs collected information on the growth of assets and sales of the seventy-five houses and placed it obediently before Parliament.

I am convinced that much of the findings were true. Some families defended themselves in private, saying that government controls and a 97 per cent tax rate were responsible for their acts. The defence was also true. The Licence Raj did indeed make businessmen crooked. They cornered industrial licences (meant to broad-base enterprise) and perpetuated the control of markets. Their products were shoddy because there was little or no competition. Shareholder returns were not the reason to do business—only control and ownership mattered. The way to do business was to get a 'friendly bank' to give you a loan for the capital cost of your project. You recycled 15 per cent of this loan and it became your equity contribution in the company. Then, you siphoned out money from the business by giving your uncle commissions on purchases and your nephew commissions on sales. You could also grow by buying up cheaply the plantations and trading businesses of the departing English companies. By financing the elections of a dozen MPs, you could buy protection.

This was the scene when Indira Gandhi made her next major socialist move after bank nationalization. She enacted

the Monopolies and Restrictive Trade Practices Act (MRTP) and crippled private industry for a generation. When Parliament was debating the MRTP bill, I got the opportunity to meet the legendary J.R.D. Tata. Every citizen of Bombay knew that he controlled the largest industrial empire in India. He was the uncrowned prince of the only city in India where commercial power is esteemed above political power. Although the house of Tatas was at the top of the monopolies list, everyone respected JRD for his integrity. The Tata companies were thought to be 'squeaky clean' and not to have indulged in questionable practices.

Piloo Mody, my fat and generous friend and a Swatantra Party MP, drove us up Altamount Road and turned into a lane past the Mafatlal bungalow. The road narrowed and wound its way down to a shaded bungalow surrounded by a spacious green compound in the heart of the concrete jungle. We had come to JRD's home, The Cairn. We walked along a long, winding passage, interspersed with dozens of steps, past faded public rooms that seemed rarely used but were filled with flowers. Eventually we arrived in JRD's study. He got up to receive us. He was smaller than I had imagined. I sat on a grey sofa and looked around the simple, lived-in room. The portrait of Jamshetji, the founder of the Tatas, caught my eye. So, this was the daring man, I thought, who had defied colonial prejudice to set up a steel plant in 1907 and one of the greatest hotels in the world—the Taj Mahal Hotel—because he was not allowed to stay in the one beside it at the Gateway in Bombay.

JRD looked at me and said, 'Yesterday in Parliament, they called me a monopolist with "great concentration of power". I wake up each morning and I am supposed to say, "I have great concentration of power. Whom shall I crush today? A competitor or a worker in my factory, or the consumer?" ' I did not quite know what to say.

'No, dear boy, I am powerless,' he said. 'I cannot decide how much to borrow, what shares to issue, at what price, what wages or bonus to pay and what dividend to give. I even need the government's permission for the salary I can pay a senior

executive.' He smiled sadly. 'Let's have some tea, shall we?'

Turning to Piloo, he said, 'Now, let's see what your Swatantra party can do about this bill—it is such an ineffective party! You do know what this new legislation means, don't you? Henceforth, I will not be allowed to start a new business or even expand an older one. What do they expect me to do?' There was an uncomfortable pause. 'Sit here and wait till I die, I suppose.' His face was again filled with sadness.

'But that's precisely why I have come, Jeh—to fight this bill in Parliament,' said Piloo. 'I need your comments on the draft memo for the Select Committee.' Wearily, JRD opened the drawer and pulled out the draft. 'I have corrected it in several places. Do you think it will do any good? She has the votes, you know.'

Behind him in the cupboard I saw the famous reports—*The Mahalanobis Committee, 1964*; *The Monopolies Inquiry Commission, 1965*; *The Hazari Committee, 1966*; and *The Dutt Committee on Licensing, 1969*. He saw me looking at them and he said bitterly, 'I have read them all.' He handed Piloo the memo and we got up to go. On the way home, Piloo said, 'You did not see him at his best, and this new MRTP law has been the last straw. Things started going downhill with the nationalization of Air India sixteen years ago. He is a pilot at heart, and ever since they took Air India away, he has not been the same.'

'He seems to live very simply for a man in his position,' I said.

'He doesn't care about money,' said Piloo. 'He is not wealthy. All the Tata shares are in trusts. Whatever he inherited personally, he has also put that into a trust. In any case, he pays 97 per cent of his earnings to income tax; then, he pays wealth tax, and this takes his tax rate to over a 100 per cent. His entire income goes in taxes, and he has to sell some assets each year to live on.'

Despite their great efforts in Parliament, the Swatantra Party could not stop the MRTP law. In the end, Mrs Gandhi had the votes. No one read JRD's carefully drafted memorandum. A different sort of MP had come into power,

one who had no use for such information. Tata's methods seemed to belong to a different era. The MRTP Act turned out to be one of the most damaging in modern Indian history. Any group with combined assets above Rs 20 crore was declared a monopoly and effectively debarred from expanding its business after 1969. A single company, with assets above Rs 1 crore, puny by world standards, was similarly placed under 'anti-monopolistic supervision and control'. Freddie Mehta, a director of Tatas, told me in 1989 that the Tatas made over a hundred proposals for new business projects or to expand existing ones over the twenty years since the MRTP law. All of them were rejected. In the mid-1980s, Rajiv Gandhi's government raised the MRTP asset limit fivefold to Rs 100 crore. Finally, in September 1991, the Narasimha Rao government scrapped this ridiculous law.

For all their difficulties from a hostile government over the past fifty years, Tatas' core businesses were strong and they were still the largest industrial group in 1997 with a sales turnover of over Rs 35,000 crore. India's first political and commercial families, the Nehrus and the Tatas, had been family friends since Motilal Nehru had first brought his two children, Jawaharlal and Vijaylakshmi, to JRD's father's home in the 1920s. This friendship had continued through the years. At Jawaharlal's request, JRD had sent a parcel of mangoes to the Mountbattens in the summer of 1949. For years, Indira Gandhi used to accompany her father to JRD's shack on Juhu beach in Bombay, or they met when JRD was invited to Nehru's home in Delhi. Both Nehru and JRD had spent their impressionable years in Europe and acquired a rational, scientific temper. Even their vision of modern India was the same. Yet, JRD continued to feel a sense of personal defeat until the end—he was not able to make Nehru or Indira appreciate the value of private enterprise.

JRD tried a number of times to engage Nehru, but each time he was rebuffed. Once, before lunch at Teen Murti house, JRD innocently mentioned that the public sector ought to be making a profit. Nehru snapped back, 'Never talk to me about profit, Jeh, it is a dirty word,' and he turned to look out of the window, a well-rehearsed sign that Nehru was not interested in listening. To make amends, Nehru quietly took JRD to see his giant panda. Indira had a different manner, but she could be equally impolite. Every time JRD tried to discuss economic policy with her, she would begin to doodle or open her mail. Once when this happened, JRD whispered to his colleague, Sharokh Sabawalla, 'She's not interested. We are boring her.' Mrs Gandhi looked up, 'No, no. I'm not bored. I'm listening, Jeh.'

JRD used to urge Mrs Gandhi to give more autonomy and accountability to the public sector. He said in a public talk, 'I am convinced that a prime cause of the inefficiency and high cost prevailing in most public enterprises does not lie in the quality, competence, or dedication of their management and staff, but in the continuing denial to them of the degree of managerial freedom of action essential to the efficient management of any large undertaking.' Thus, JRD summed up the failure of public enterprise in modern India. I agree. The blame squarely lies with the bureaucracy, which has done serious harm by consistently interfering with state enterprises on a day-to-day basis. The bureaucrat and the politician have slowed decision making to such a pitiful pace that morale and discipline have been crippled. In the beginning, it may have been natural for the ministries to keep a watch on their creations. However, in time, it should have given way to managerial autonomy, as in European public enterprises.

The Gandhians compounded the follies during Mrs Gandhi's raj. They forced the government to protect traditional industries, like handloom textiles, even when it was obvious that we were throwing good money after bad. They were hostile to modern industry, especially large industry, because it did not create enough jobs and it destroyed traditional industry. They did not understand that unviable companies must die. They felt that once capital and employment are created, they must be protected at any cost. This brand of thinking came to be called Gandhian socialism, and it became especially popular

during the Janata Party's rule. Gandhian socialists succeeded in reserving 863 industries for the small sector. This meant that only entrepreneurs who invested less than Rs 60 lakh could enter one of these industries, and thus they eliminated competition from large or medium enterprises. Small firms lost the incentive to improve their products, update production techniques, reduce costs, and bring new technology or new designs. Underlying the Gandhian socialist philosophy was a distrust of the competitive market, and the belief that whatever could be produced by small industry was inherently better, no matter what the cost and quality.

Abid Husain's committee showed in the mid-1990s that small-scale reservation was responsible for our miserable export performance and wanted it scrapped. The Gandhian socialists were unmoved. The committee argued that the success of Japan and East Asia had been built on the competitive export of simple manufactures—toys, shoes, garments. In India these were precisely the products reserved for the small sector. Competition would have improved our products and their potential as exports, but socialist thinking has sunk into our bones so deeply that the very subject is now a holy cow. We continue to hold the view that the small and the weak must be protected at any cost. Because of this thinking, our labour legislation makes it impossible to remove a worker on any grounds. Eventually, managements in the 1990s stopped recruiting labour and began to 'farm out' manufacturing to smaller companies, who were not governed by the same stringent laws or were able to bribe labour inspectors. Labour in the organized sector stopped growing. My company did the same. We asked several entrepreneurs, one near Ahmedabad and another near Hyderabad, to manufacture Vicks Throat Drops on our behalf. We gave them supervisors to ensure quality, and our costs dropped significantly.

One day in the hot summer of 1975 I came home early. I had learned that the Supreme Court had confirmed that Indira Gandhi was guilty of corrupt election practices and would have to resign. I was shocked. 'How can they do it for something so

trivial? It is like removing the Prime Minister for speeding in traffic,' I said. The Allahabad High Court had found her guilty of using a government employee in her election and state machinery to put up rostrums and mikes during her campaign. I felt it was a minor impropriety, not an offence. Mrs Gandhi had won by a 100,000 votes, and this could not have effected the outcome.

Instead of resigning, Indira Gandhi declared an Emergency. Before dawn the next morning police parties acting under her orders woke up political opponents and locked them up. In the next thirty-six hours, India had changed from a democracy to a dictatorship. We were angry but our anger did not last long. We were not excessively political in the commercial city of Bombay, and like millions of Indians, we slowly got absorbed in our work and our daily lives. Because of press censorship neither did we know what was happening. The one thing we did notice was that public life began to improve visibly. Clerks began to work in government offices, trains and planes began to run on time, labour in factories became more productive, public officials became courteous and responsive. People began to say that if this was what it would take to get India going, perhaps the Emergency was not such a bad thing. Even Vinoba Bhave called it *Anusashan Parva*, a period of discipline.

It was too good to last, however. Gradually the discipline began to decline. Indira Gandhi's rule was replaced by her son's tyranny. Sanjay Gandhi was only twenty-eight, but as far as his mother was concerned, he could do no wrong. A drop-out from Doon School and an apprentice motor mechanic with Rolls-Royce in England, Sanjay Gandhi had won his mother's confidence by giving her the slogan that won her the 1971 elections—'garibi hatao'. As Sanjay began to rule with his coterie, we heard that every chief minister and cabinet minister had become his sycophant. Once Sanjay's slipper fell, we heard, and three chief ministers ran to pick it up. They followed his most ridiculous and most criminal orders without hesitation. All our institutions were infected by the virus. The police, the judiciary, the civil service, the state chief ministers,

the cabinet, the Presidency—all went into decline. Corruption became rampant and the cult of sycophancy became the ruling ideology as the number of political opponents in jail reached 100,000.

Despite press censorship, we began to hear horrendous tales. Sanjay Gandhi had the laudable thought that India's expanding population needed to be controlled. He hit upon the bizarre idea of sterilizing the male population of India. With his usual frenzy, he threw himself into this project. Anyone with more than two children would be mandatorily sterilized. He gave quotas to petty bureaucrats, but he did not lay down safeguards. There was no regard for age, whether a person was married or single, or how many children he had.

We wondered how did Indira Gandhi, who had grown up in one of the most cultivated homes in the country, and was privileged to meet the best minds of the age, allow this to happen? How could the daughter of such a principled and idealistic father have done this debased deed? Some said that the answer lay in her contradictory childhood. Her mother had died when she was young; her early years had been lonely when her father was constantly away to jail; she was left in the care of her two tough aunts, Nehru's younger sisters. Hence, she had become introspective and withdrawn. This had been compounded by an unhappy marriage with Firoze Gandhi, who died young in 1960. Ever since his death, they said, she depended only on her two sons, Rajiv and Sanjay. Whatever the reasons, we were staggered by the insolence of her action.

Mercifully, the Emergency lasted only twenty-one months. Mrs Gandhi made a blunder in thinking that she was still popular and could win an election. After all, even a dictator needs legitimacy. She called and lost the election. Morarji Desai, now a part of the Janata opposition, finally got what he had always wanted. He became India's fourth Prime Minister on 24 March 1977.

Between 1965 and 1991, instead of changing course as many countries did, we tightened our system, making it more rigid and bureaucratic. Even China changed course in 1978,

letting in competition, and set out on a historic path of growth. India continued to eliminate competition because it regarded it as wasteful. We made modest reforms in the 1980s, but it was far from what was needed. For example, we partially lifted controls on cement and within two years, we went from terrible scarcity to plenty. The only loser was the cement controller. But we did not learn from this and decontrol other industries as well.

It is easy to blame Jawaharlal Nehru. Although he initiated the wrong economic policies, they represented the wisdom of his age. As the failure became apparent many developing countries changed course in the early 1970s. India did not. One *has* to blame Indira Gandhi who ruled India during most of this period. In another sense, the entire Indian ruling class is guilty. We cannot trust ourselves unless we understand how well-meaning professionals, steeped in a modern, scientific outlook, could further such an insane economic tyranny. I feel a chill when I think that it was our brightest economists and administrators (some of whom later became reformers) who were in positions of power and who defended and acted on behalf of this tyranny. 'India's misfortune,' says Jagdish Bhagwati, 'was to have brilliant economists.'

More and more young Indians insistently ask how we could have created these terrible things. We created a monster called the Licence Raj where you could actually go to jail for producing more than your approved limit. A farmer could not sell his produce beyond his state borders. A young entrepreneur faced up to thirty-seven functionaries and inspectors, each of them wanting his cut. A bank officer could only give a loan to someone approved by the local MLA or if he received a bribe. A businessman could not hope to expand or start a business if the assets of his family exceeded Rs 25 crore. It was a crime under FERA to invite your customer to lunch abroad while travelling because it exceeded your foreign exchange allowance. Though millions were unemployed, we continued to pay wages to thousands of privileged workers, along with bonuses and overtime, when their factories did not produce anything.

Why so few protested, demanding economic freedom, is because the victims were unorganized private citizens—farmers, businessmen, the unemployed, consumers. Businessmen are fine producers of goods and jobs but they are cowards and do not speak out. One of them, Rahul Bajaj, did finally speak out at a hearing of the Monopolies Commission. The court asked him why he should not be prosecuted for producing more scooters than his licensed capacity. Bajaj replied, 'Sir, my grandfather went to jail for my country's freedom. I stand ready to do the same for producing on behalf of my motherland.' The MRTP enquiry was quietly dropped. In those dark days I used to worry myself silly that we had produced Vicks Vaporub beyond our authorized limit during a flu epidemic. Our legal manager spent months working with lawyers to prepare a defence in case we were hauled up. We lived in the same fear when it came to our profits. During good years, our profits had marginally exceeded the government's profitability limit as laid down by the Drug Price Control Order.

Most people remember the Emergency because it was a generalized loss of liberty. They do not understand that by suppressing economic liberty for forty years, we destroyed growth and the futures of two generations. For the average citizen it was a great betrayal. Lest we forget, we lived under a system where a third of the people went hungry and malnourished, half were illiterate while the elite enjoyed a vast system of higher education, and one of ten infants died at childbirth. Our controls and red tape stifled the entrepreneur and the farmer, and the command mentality of the bureaucrat, which fed the evil system, continues till today to frustrate every effort at reform.

12

Marwaris

No matter who reigns, the merchant reigns.

—*Henry Ward Beecher*

Marwaris have never got the respect from Indian society that they have always yearned for. The average Indian thinks of the Marwari as either a small-time shopkeeper who is also a moneylender or a ruthless tycoon. Yet theirs is a fascinating story of how a tiny community from the desert sands of Rajasthan spread out to every corner of north, east, and central India, settling in thousands of villages and towns in the nineteenth century. With their enormous appetite for risk, Marwaris seized control of India's inland trade. Gradually they turned to industry after the First World War, and today they control roughly half the nation's private industrial assets. What made them so successful? And why were they not able to create an industrial revolution and broadly transform the country? I shall explore these questions, first in the context of the historic emergence of Marwaris, and later in the story of Aditya Birla, the grandson of G.D. Birla, during the Licence Raj.

Indian industry originated with the old merchant castes

and they continue to dominate till today. Fifteen of the twenty largest industrial houses in 1997 were of Vaishya or bania trading castes. Eight were Marwaris. (Similarly, in contemporary Pakistan, most of the twenty-two families, who reputedly own half the nation's wealth, are Kutchi Memons, the leading Muslim trading caste of undivided India.) In the last half of the nineteenth century, the trading communities started the first cotton textile mills in Bombay and Ahmedabad. There were Parsees, Khojas, and Bhatia traders in Bombay and Jain banias in Ahmedabad. Although the Marwaris came late, after the First World War, they became the most successful. The Marwaris come from Marwar, the old Jodhpur state in Rajasthan. The most successful families come from the small Shekhawati region in the old Bikaner and Jaipur states. They are all bania by caste and either Jains or Vaishnav Hindus by religious persuasion. Of the 128 Marwari subcastes in Rajasthan, only five became big and prominent in national commerce—Maheshwaris, Oswals, Aggarwals, Porwals, and Khandelwals.

For centuries Marwaris had been bankers and helped finance the land trade between the East and the West, as the great trade route passed through northern Rajasthan. During the Mughal days, they were financiers to many princes, including the emperor's family. Kasturbhai Lalbhai's family was one of them. Jagat Seth, a Marwari Oswal, was banker to the nawabs of Bengal. Not only was he a nawab-maker, he was also a friend of Clive's and played a part in the conspiracy at Plassey. Colonel Tod, the historian of Rajasthan, noted that in 1832, 'nine-tenths of the bankers and commercial men of India are natives of Maroo des, and these chiefly of the Jain faith'. As the British created a national market during the nineteenth century there was a huge migration of Marwari traders into the smallest and remotest villages of India. The migrants began as petty shopkeepers (often with capital advanced from a wholesaler from their own community) and slowly graduated to moneylending, then moved up to finance farmers for their commercial crops, such as opium and cotton. The railways accelerated the process.

Some Marwaris became hugely successful and created large firms, such as Tarachand Ghanshyamdas, with whom the Birlas were proud to be associated when they first came to Calcutta around 1900. They had branches at the major seaports in Bombay and Calcutta, on the river ports along the Ganges, and throughout the opium- and cotton- growing areas. The firm took deposits, gave loans, engaged in the wholesale trade of commodities, transferred funds for clients to distant cities, cashed bills of trade, insured shipments, and speculated on commodity futures when the opportunity arose. In such a firm, trading and banking were closely interlinked and every firm was a moneylender. Some firms were exclusively bankers; they were called 'shroffs'. These 'great firms' also lent money to the princely families. For example, Bhagoti Ram Poddar, the founder of Tarachand Ghanshyamdas, was banker to the royal families of Jaipur, Bikaner, and Hyderabad.

The Marwaris achieved their biggest successes in the British trading post of Calcutta. They smelled the chance for big money and they flocked there to become brokers and agents to the British (who called them 'banians'). Ramdutt Goenka was a typical example. He came to Calcutta in 1830. Starting as a clerk to a Marwari firm, he gradually became a broker to the major English firms. Nathuram Saraf began as a clerk in Ramdutt Goenka's firm and he graduated to become a banian to other British firms. He opened a free hostel for migrants from the Shekhawati area and G.D. Birla used to say that this hostel spawned many entrepreneurial careers. At night, the young apprentices would exchange stories of their commercial exploits of the day and draw lessons from them. Some of these stories became legendary. Passed on by word of mouth for generations, it was their version of Harvard Business School cases. The arrival of the Delhi–Calcutta railway in the 1860s quickened the migration to Calcutta and by the turn of the century Marwaris had become dominant in the jute and cotton trade. During the First World War they made spectacular profits speculating in cotton, jute, and hessian, and these profits laid the foundation for many industrial careers after the war.

Why the Marwaris turned out to be so spectacularly successful had a lot to do with their wonderful support system, explained Tom Timberg in his well-known book, *The Marwaris.* When a Marwari travelled on business, his wife and children were cared for in a joint family at home. Wherever he went in search of trade, he found shelter and good Rajasthani food in a *basa*, a sort of collective hostel run on a cooperative basis or as a philanthropy by local Marwari merchants. G.D. Birla's grandfather, Shiv Narain, settled in a basa when he first came to Bombay in the 1860s. When the Marwari needed money, he borrowed from another Marwari trader on the understanding that the loan was payable on demand, 'even at midnight', and he would reciprocate with a similar loan. At the end of the year, they tallied and settled the interest. He could count on community banks to insure his goods in transit and collect his dues when the goods arrived. His sons and nephews were apprenticed to other Marwari traders, where they earned their salary through profit-sharing, learned business skills, and accumulated capital to start their own business when they were ready.

Why some groups in society become entrepreneurs and others do not is an old question. I am not sure that there is a satisfactory answer, but I find that merchants everywhere seem to become the first industrialists. This is not surprising. They possess capital and access to credit; they have business skills; they are used to taking risks; and they are close to the market and understand the nature of the demand. The Marwaris, in addition, have always had a powerful support system within the community. To a lesser degree, this applies to other Indian trading castes. But the Marwaris score over the others because they appear to have a stronger stomach for taking risks. Many Marwaris made their fortunes during the First World War in extremely speculative forward trading. Their abilities as businessmen make their competitors fear (and admire) them.

The British businessmen of Calcutta disliked G.D. Birla because he took control of the jute market and forced up prices to the European mills. At the same time, he and other Marwari

shippers (Bangur, Goenka, Bajoria) undersold the Europeans in the baled jute market through cut-rate exports by hedging in the *futka* (futures) bazaar. Dalmia, who made his fortune in the Calcutta bullion market in 1917 by speculating on the rise of silver prices in London, also destroyed many English rivals. Nationalist historians interpreted the reaction of British business as an 'anti-Indian feeling'. In fact, the British rivals behaved like competitors anywhere and did what any businessman would have done to stop competition.

After Independence, Aditya Birla, more than anyone, symbolized the Marwari ethic. Some twenty years ago, I used to see Aditya off and on at the badminton courts of the Bombay Gymkhana Club. He wore thick-rimmed, square glasses over his square face. We used to greet and smile at each other but never became friends. I found him exceedingly reserved, almost ascetic. I had first met him in Boston, when he was a student down the river at MIT and I was at Harvard. He used to stick with his two room-mates, and I remember that both of us shared a passion for Guru Dutt's films, especially for *Sahib, Bibi aur Gulam*, whose songs he played all the time on his hi-fi.

Aditya Birla was shy and it was difficult to believe that he was G.D. Birla's grandson and the inheritor of one of the largest family fortunes in India. And that amazing wealth had been in his family for more than a hundred years. However, stark simplicity had been part of his family tradition. Behind the shy exterior, there was an attractive quality in Aditya which drew me to him. I was also fascinated by the breakneck speed with which he was building hugely successful companies in South-East Asia—in Thailand, Malaysia, Indonesia, and the Philippines. By the early 1980s, he had built an empire of a dozen companies in the Far East, which had become global leaders in the manufacture of viscose staple fibre, palm oil, textiles, and carbon black.

Aditya and I were both twenty-one years old when we returned after studying in America. Whereas I joined Vicks as a trainee in 1964, he got busy planning an industrial empire. His grandfather had been keen that he join one of the large

family companies (either Gwalior Rayon or Hindustan Aluminium) where he would personally train him, but Aditya politely declined his offer. GD was disappointed, but he also understood Aditya's desire to strike out on his own. After all, had he not done the same at the age of sixteen? He had started his own trading company just before the First World War, which became the foundation of his great empire. His son had followed his example and built an independent group of companies. Indeed, his own grandfather, Shiv Narain, had defied his father in the 1860s and set out on his own (rather than join the firm of Ghaneriwalas in Hyderabad.) Aditya was merely following a family tradition. Aditya told GD six months before leaving MIT that he wanted to 'create something really big—really BIG'.

Realizing that Aditya was determined not to join any of the family businesses, his father, Basant Kumar Birla, gave him an unusual graduation gift. He presented him with an industrial licence—one of the most coveted pieces of paper at the time. It was for a cotton spinning mill. When giving him the present the father offered his son the following advice: 'This permission is just a piece of paper. If you are interested, take it. If not, tear it up. The entire responsibility, from start to finish, will be yours.'

Along with the advice came some seed capital to get started. Without losing a day, Aditya began to look for land to locate the mill; he hired people; he sent out enquries for machinery. He wanted only the latest technology. He found a piece of land near the Calcutta airport. Before he knew it, he was working fourteen hours a day, shuttling between his home and the factory site forty kilometres away. He also plunged into learning *parta* accounting. He knew this ancient ledger bookkeeping system was critical to success.

His parents now began to think of his marriage. Aditya had been engaged to an attractive Marwari girl, Rajshree Fomra, since he was fourteen and she ten. Now she was seventeen and in a local college in Madurai in the south. They had met only once. They were soon married, in January 1965, in the sprawling

gardens of the family bungalow in Calcutta. True to character, Aditya chose Ranchi, a sleepy provincial town in nearby Bihar, for the honeymoon, and he invited several dozen friends and relatives to come along. The decision raised eyebrows, for he was, after all, 'America-returned', but Aditya thought the presence of relatives and close friends would help smoothen the early relationship between the couple.

On returning from his honeymoon, Aditya was besieged by problems at his textile factory. He found that he had hired the wrong executives. The 1965 Indo-Pakistan war had begun to delay deliveries and his project costs were out of control. He was mortified. He had also broken an article of family faith—a Birla plant always started on time. However, Aditya learned from this experience: it was the first and last time that he failed to construct a factory on time (and he built seventy factories in his lifetime!) The plant started in October 1965 with 12,000 spindles and 600 employees, and by 1967, it had turned in its first profits. Aditya was now ready for his second company. Around this time, the Birlas were offered a 'sick company' by the respected Morarjee Vaidya family of Bombay. It was a large firm called Indian Rayon, employing thousands of people. Because of mismanagement, it had run up huge losses. Since it was well known, the asking price was also high. The family did not like the proposal, but Aditya saw in it untapped potential, valuable assets—and a challenge. He argued persuasively and convinced the family to take it over.

Aditya was thrilled to have a second company. But his joy was short-lived. The workers in the plant near Bombay soon went on strike. A few months later a fire broke out. The blaze continued all night and when Aditya arrived the next morning, the plant was a shambles. He worked day and night and within weeks, he got the production started. Slowly and painfully, with a lot of time, effort, and money, he turned the company around. Gradually, he pushed up quality and productivity; he pioneered coloured yarn. Eventually, Indian Rayon became one of the largest and most profitable Indian companies. By the decade's end all three generations of the main Birla branch—

GD, Basant Kumar, and Aditya—owned flourishing, independent businesses. It was also the time that Indira Gandhi was consolidating her hold on the Congress party with a series of populist moves—nationalizing banks and enacting draconian controls on private investment, such as the Foreign Exchange and Regulation Act (FERA) and the Monopolies and Restrictive Trade Practice Act (MRTP). Her socialist acts crushed Birlas' attempts to expand, to build world-size plants (with economies of scale), to bring in world-class technology, or even modernize old plants. In the end, she crippled them.

Mrs Gandhi's damaging policies were a clear signal to Aditya Birla that his future did not lie in India. The thought depressed him no end. At MIT, he had been excited by the way that the capitalist world did business—there were transparent regulations rather than licences and quotas, and there were reasonable taxes. Having turned around Indian Rayon, Aditya now hungered after bigger challenges. If he could not do it in India, he would have to go outside. His thoughts turned eastward. He looked particularly to small, underdeveloped Thailand. He sent one of his managers to Bangkok, who brought a positive report, saying that there was a growing market and the Thai government was hospitable. This was it, thought Aditya. He decided to set up a synthetic fibre plant. Although there was a war raging next door in Vietnam, Aditya felt that it would end one day and he began to wrestle with the problem of funding the Thai venture. How would he get the currency for a factory when the Indian government prohibited foreign exchange even for travel, medical emergencies, or for a cup of tea abroad? He hit upon an ingenious idea: he would form a joint venture—he would get Indians abroad to invest the cash, while he funded his equity by exporting machinery and materials from India. This was fair and legal. He invited Vijay Mehta, a diamond merchant in Antwerp, and Amarnath Sachdev, a Bangkok textile trader, to become his partners. Aware of the legendary Birla name and management skills, they quickly agreed. The Thai venture commenced production in September 1970, on time and within

budget, and was soon a great success.

The Thai venture became the model for a spate of foreign companies that Aditya Birla set up in South-East Asia in the 1970s. The following year he set up a textile plant in Thailand, then a rayon plant, followed by a textile plant in Indonesia, a carbon black plant in Thailand, a spinning mill in the Philippines, the world's largest palm refinery in Malaysia, a viscose rayon fibre plant in Indonesia, a polyphosphate plant in Thailand, another carbon black operation in Egypt. He became the world's largest producer of viscose staple fibre, palm oil and insulators and the world's sixth largest maker of carbon black. In India, his group became the largest producer of rayon filament yarn, flax yarn, caustic soda, rayon grade pulp, and aluminium metal (in the private sector), and among the top three makers of cement. When he died suddenly in 1995, his group had thirty-seven companies with sales of Rs 16,500 crore and after-tax profits of Rs 1,500 crore. More than a third of his business was overseas. He was rightly called a 'human factory-making factory'. At the time of his early death he was completing an oil refinery, a copper smelter, a hot-rolled coil steel mill. He was planning a petrochemical complex, a 1000 MW power station, and an entry into telecommunications.

With all his successes, there were heartbreaks galore. One of them was the Mangalore refinery, which Delhi's bureaucrats took eleven years to clear—a record even by the standards of the Indian bureaucracy. In September 1985, the Rajiv Gandhi government, in a liberalizing mood, invited private entrepreneurs to build oil refineries in joint venture with government companies. Aditya bid for a refinery and naphtha cracker at Mangalore, in Karnataka, in competition with sixteen other businessmen. He topped the petroleum ministry's shortlist in November 1986, and in June 1987 he signed a memorandum of understanding with the state-owned Hindustan Petroleum. Excited by the huge project, Aditya plunged vigorously into planning it with his team. After he had invested two years of sweat, besides Rs 20 crore, the government seemed to change its mind. It decided to review the project because a member of

the Planning Commission, Abid Husain, suggested that crackers should be based on gas, rather than naphtha. Aditya became worried that he might now lose the cracker to his rivals, the Ambanis, who had planned their refinery close to gas sources. But the Karnataka government responded vigorously and tried to salvage the plant for the state. Afraid they might lose the plant to Gujarat, state officials lobbied energetically with the Central government. Meanwhile, Rajiv Gandhi lost the national election and V.P. Singh became the Prime Minister. Since V.P. Singh was antipathetic to Dhirubhai Ambani, Aditya Birla's hopes rose in February 1990. In March, those hopes were dashed again when the government announced that it was short of resources and would prefer to expand existing facilities rather than build new ones.

Aditya Birla was heartbroken. He had spent five years on a see-saw and he still did not have definite permission. He had invested money, time, the energy of his people, and most important, his hopes. Perhaps, he should cut his losses and drop the project, he thought. However, in November 1990, there was a new Prime Minister, Chandrashekhar, who a few months later not only granted approval to the Mangalore refinery but opened the doors to everyone. This meant, in effect, that there might be another round of bidding and Aditya might return to square one. At the same time, his application for making PTA (purified terephthalic acid) was repeatedly blocked by rivals and his application for a licence to make HDPE (high-density polyethylene) was rejected. In frustration, Aditya said, 'We have created systems that have gone out of control.' However, in July 1991 the economic reforms came, licensing went away, and the refinery was set up in 1996.

While both of us were waiting for a court to open up at the Bombay Gymkhana one day, I asked Aditya Birla what had led him to invest abroad. He had no choice, he said, in his deep unaffected voice. There were too many obstacles in India. To begin with, he needed a licence, which the government would not give because the Birlas were classified as 'a large house' under the MRTP Act. Even if he did get one miraculously, the government would decide where he should invest, what technology he must use, what was to be the size of his plant, how it was to be financed—even the size and structure of his public issue. Then, he would have to battle the bureaucracy to get licences for the import of capital goods and raw materials. After that, he faced dozens of clearances at the state level—for power, land, sales tax, excise, labour, among others. 'All this takes years, and frankly, I get exhausted just thinking about it.'

Aditya told me that he produced staple fibre in Thailand from pulp that he bought in Canada. He sent the fibre to his factory in Indonesia for converting to yarn. He exported the yarn to Belgium, where it was made into carpets and finally, the carpet was exported to Canada. 'Here is Aditya Birla,' I thought, 'an Indian, and yet India does not figure in this global value-added chain.' It did not because India had closed its economy. By closing it, it denied its citizens the chance to participate in the enormous expansion in global trade in the second half of the twentieth century. It denied its people jobs, technology, knowledge, and new ways of organizing. Thus, it deliberately suppressed economic growth.

Domestically too, India did itself enormous damage. For example, Gwalior Rayon, GD's flagship company, of which Aditya was later chairman, wished to expand its viscose staple fibre plant in 1978. It applied to the government for permission. Despite weekly follow-ups by the Birla managers with the ministry of industries, the approval did not come because of the MRTP rules. Nor did the government reject the application. Fed up with waiting, Gwalior Rayon decided after eighteen months to transfer the project to Indonesia. Indonesia welcomed the investment and the jobs and India's loss became its gain. It is hard to imagine the absurdity of our rules. Aditya wanted to be director of his foreign company, and he applied for permission. Since the approval did not come for nine months, he went to meet the officer concerned. The official told him maliciously, 'Mr Birla, we could even prosecute you if you

accepted the offer to become the director of a foreign company.' Aditya had to face embarrassment with the foreign company's board of directors, who were unable to comprehend why it should take anyone nine months to accept a directorship. Finally, after hard lobbying by Birla executives, the permission came, but only after a heavy drain of precious management time.

Having achieved so much in a lifetime, Aditya Birla was left uneasy. He thought it ironical that the Indian ruling class should have such a low opinion of the Birlas. Throughout his life, his family had been under attack in Parliament, by the bureaucracy, and in the media. To many Indians, he had become a symbol of the licence-permit nexus between politicians, bureaucrats, and businessmen. They thought his success was the result of a cosy relationship with the powers that be. When the economic reforms came in 1991, they said that his companies would not survive in the competitive climate. The truth is that Aditya Birla felt a huge load lifted when licensing came to an end. The critics did not realize that it was the government that had been his biggest problem. After the reforms, he was a happy man and he plunged again into fourteen-hour days to improve the performance of his Indian companies and to execute his petrochemical complex and other major projects. His Indian businesses responded after 1991 and prospered like never before. But he never got a chance to prove his critics definitively wrong. For on 1 October 1995 he died of prostate cancer, not yet fifty-two years old.

With all his triumphs, and those of his father and his brilliant grandfather, Aditya Birla had to live down the poor image that Indians have of Marwaris. Perhaps that is why Aditya and the entire Birla clan have been shy and reclusive—almost secretive. The Birlas suffered heavily from the fallout of the Hazari Committee report on monopolies in the 1960s. Hazari had pointed a finger at the Birlas for pre-empting 20 per cent of all licences awarded by the government between 1957 and 1966. From twenty companies in 1945 Birla companies had

grown to almost 150 by 1962. To many Indians this smacked of monopoly. It confirmed their image of Marwaris as ruthless businessmen who did not stop at anything to get what they wanted, who did not pay taxes if they could get away with it.

A certain amount of antipathy to business exists in all societies. But Aditya Birla could not understand why the public chose to target his family. It pained him that the Birlas represented the ugly face of big business in the public mind. He thought it unfair. After all, they had supported the nationalists' movement for independence. They had invested huge sums in charities and philanthropy. They had maintained a simple and quiet lifestyle and reinvested their entire surplus rather than consuming it. In Aditya's mind they had come closer than anyone else to practising Mahatma Gandhi's idea of trusteeship—that the businessman's wealth belongs to the community and he is merely a trustee of this wealth during his lifetime. In fact, GD had offered the following advice to Aditya at MIT: 'Eat only vegetarian food, never drink alcohol or smoke, keep early hours, marry young, switch off lights when leaving the room, cultivate regular habits, go for a walk every day, keep in touch with the family, and above all, don't be extravagant.' Aditya thought that his grandfather's counsel symbolized the ethic of the Indian merchant. Its defining tone was restraint and austerity, not dissimilar to the ethic of Protestant, Jewish, or Chinese business families. It captured the spirit of conservation that leads eventually to accumulation.

In business, Birlas were always regarded highly (and feared by competitors), but they never enjoyed the social status that they yearned for throughout the forty years of the socialist raj. As for the contention that they were the great beneficiaries of the Licence Raj, I disagree. I believe that the Marwaris lost touch with the market during the socialist period. By eliminating competition, socialism distorted their behaviour and suppressed their business skills. Competition is the school in which companies learn to perfect their skills. By closing the economy and discouraging competition, socialism made Indian business

houses complacent and insensitive to customer needs. They lost the incentive to improve their products and acquire marketing skills. When the economy opened in 1991 and markets became increasingly competitive, the old businesses were in trouble. Hence, eight years after the economic reforms, the old Marwari houses, including the Birlas, are floundering.

13

Dreams in Kabutarkhana

Boldness in business is the first, second and third thing.

—*Thomas Fuller*

Dhirubhai Ambani was a master gamesman who managed the Licence Raj to his advantage and he came out on top. Against all odds, he created within a generation an outstanding petrochemicals company which grew at a scorching pace to become India's largest company and among the world's top five producers of polyester, polypropylene, PTA, polyethylene, the world's largest maker of paraxylene and PET, and at the end of the century set up the world's largest multi-feed refinery. In the process, Dhirubhai made a mockery of the decaying and corrupt control regime of Indira Gandhi. He became a hero to the lost generation of 1965-90, an inspiration to hundreds of young entrepreneurs and the darling of the Indian stock markets. By 1995, he had 2.4 million shareholders—more than any company in the world—so many that it had to hold its annual general meetings in a football stadium. To its critics, he became a symbol of everything that was wrong with the Licence Raj.

At the time that I was wandering around the bazaars of Bombay in the mid-1960s, learning to sell Vicks Vaporub to

wholesalers and retailers, Dhirubhai Ambani was hustling nearby in Bombay's Mulji Jetha wholesale market. He was peddling imported nylon yarn, which he had acquired through the export of rayon fabric. He worked from a tiny, borrowed office in Bhaat Bazaar, but he spent most of his day trudging in the muggy, teeming yarn markets of Pydhonie, chewing paan and drinking endless cups of tea. There was little to distinguish Dhirubhai from other traders. They were all sharp and had learned to operate on razor-thin margins. He lived in the bowels of Bombay's bazaars, in a one-room chawl with his wife, his brother, his mother, and his two sons in Kabutarkhana in Bhuleshwar. It was a fifth floor walk-up, pigeon-holed among 500 families.

'Kabutarkhana' is literally a place where pigeons live, but no one is quite sure how it got its name. There is a temple next door, where everybody goes and prays, and throws *chana* to the pigeons. Kabutarkhana is also home to Bombay's milkmen and there is a milk market nearby in Pinjrapol. Strange companions to the milkmen are Bombay's embroiders, who include the famous retailer, Maganlal Dresswalla. Everyone agrees that there is a lot of hustle and bustle in Kabutarkhana.

Like other traders, Dhirubhai used to take his family by bus to Chowpatty beach on Sundays, where they permitted themselves two treats per person—a snack and a drink or two snacks. Sometimes on a Sunday he took his boys to watch hockey at Churchgate and followed it up with idli-sambhar at an Udipi cafe. 'Sunday was an important day,' remembers his son, Anil Ambani. A few kilometres away from Dhirubhai's world was my upper middle class, leisurely life of gymkhana clubs, English movies, comfortable jobs, spacious flats, and Saturday evening parties.

What set Dhirubhai apart from other Gujarati traders is that he had vision, and he understood the minds of men. He realized that synthetics were the future fabric of the Indian middle class, although the government regarded them as a luxury and taxed them at extortionate rates. Sense would prevail one day, thought Dhirubhai, as he plowed his trading

profits into a small but technologically advanced textile mill that he set up near Ahmedabad with a paid-up capital of Rs 150,000. From this beginning, Dhirubhai followed an audacious but classic business strategy over the next twenty-five years: beginning with trading in synthetic fabrics, he integrated backward to make the fabric; after manufacturing synthetic textiles, he went backward to make its raw material, polyester fibre, and fibre intermediates; then, further backward to make polymers and chemicals, until he reached the basic raw material, petroleum. When he got there, he built the world's largest ethylene gas cracker and oil refinery. Not content, he finally began to explore for oil off the shore of western India.

Dhirubhai is proud to belong to the 'zero club', because he started with nothing. He was born to a schoolteacher in Chorwad, a village in Junagadh district in Gujarat. The nearest town was Porbander, where Mahatma Gandhi was born and raised. Dhirubhai was one of five children, and like all families of village schoolmasters, they were poor. He was of Modh Bania caste and even as a boy was irrepressibly driven by the smell of business. 'During Mahashivratri Dhirubhai got his friends together and sold *gathia*, a Gujarati savoury, at the fair,' recalls his older brother. He 'was a familiar sight, cycling from village to village', adds a contemporary from Chorwad. 'All he needed was an opportunity and he was off to book orders.' He went to high school in Junagadh in a yellow stucco building which had been built by the nawab of Junagadh in 1902. Because he was poor, they admitted him as a 'free student', and he lived in a boarding house supported by the Modh Bania community. The nawab of Junagadh at the time was famous for only one thing—his 150 dogs and an equal number of dog handlers. He is supposed to have spent Rs 20 lakh on the wedding of his favourite canine pair and given his 700,000 subjects a public holiday on that day.

Too poor to go to college, Dhirubhai went off to Aden, then a British colony in the Middle East. His first job at seventeen was filling gas as an attendant in a Shell petrol station. Soon he found a better job as a shipping clerk in

Besse & Co, an affiliate of Shell. Oil was the only business in Aden, and he became fascinated by it and dreamed of creating an oil business of his own one day. He was good at his job and he rose quickly. Soon he had a car and a flat. He came home on a holiday, married a Gujarati girl from his village, and took her back to Aden. He had achieved the middle-class dream, yet he suffered from discontent. He was not happy to remain a functionary in an insignificant subsidiary of a multinational giant. After work, he tried to divert himself by trading in the souk. Eventually, he quit and returned home to start a business of his own.

He settled in Bombay and with a capital of Rs 15,000 became a trader in synthetic yarn. The problem for a yarn dealer in Pydhonie was not to find buyers but to get supplies. Our system of industrial licensing and import controls and quotas ensured scarcity. As a result, there was massive smuggling of nylon, viscose, and polyester cloth. The major source of supply for Dhirubhai was through import or replenishment licences (called REPs) which were issued to exporters, allowing them to import a portion of their export earnings. Strictly speaking, many of these licences were not transferable, because one had to be an 'actual user' to import. Nevertheless, a market had developed for them. Since Dhirubhai was a bigger risk-taker and willing to pay a higher price for the licence, he soon became 'the king of REPs'. His dominant position allowed him to control the supply of yarn and he made huge profits. Periodically, there were reports in the press that 'actual users' licences had been misused; there were raids by customs officials; the market would dry up. Soon the crisis would pass, and things would get sorted out. Dhirubhai was never implicated.

In order to have greater control on supplies, Dhirubhai decided to invest his trading profits in a new factory to manufacture synthetic textiles. To become an industrialist, however, he needed a licence. To get a licence needed connections. He had learned by now that it was paramount to have friends in Delhi. Indira Gandhi was the Prime Minister and she had a trusted private secretary named Yashpal Kapur.

Dhirubhai became a friend of Yashpal's, and later of his nephew and successor, the formidable R.K. Dhawan. He also got to know the excellent T.A. Pai, a minister in Indira Gandhi's government, whose family had owned the Syndicate Bank before it was nationalized. Like a good banker, T.A. Pai could smell a smart entrepreneur, and Syndicate Bank agreed to finance his textile mill.

Soon Dhirubhai had become a proud manufacturer. However, he continued to be plagued by raw material scarcity—now, basic filaments and yarns for making synthetic fabrics. He resisted breaking the law and smuggling in supplies (as some did). Instead, he persuaded T.A. Pai to authorize official imports of polyester filament yarn (PFY) against exports of nylon fabric. It became known as the High Unit Value Scheme and it made Dhirubhai a fortune. Even if it meant exporting the fabric at a loss, it was hugely profitable to import PFY because the Indian price of PFY was six times the world price. Dhirubhai admitted in a *Business India* interview in April 1980 that he accounted for 60 per cent of the country's imports and exports under this scheme. He began to export like a maniac—to Russia, Poland, Africa; he sold synthetic sarees to Indians in Southall in London; he conducted high-profile fashion shows. His quality was excellent, his marketing was innovative, and his deliveries were reliable.

In 1977, Indira Gandhi was swept out of power. The succeeding Janata government cancelled the High Unit Value Scheme and Dhirubhai's exports became unprofitable. He decided to enter the domestic market. In order to compete, he realized that he needed a brand name, one that would stand for his consistently high quality. He decided on Vimal, and launched one of the most memorable and swish advertising campaigns of the era—'Only Vimal'—and he backed it with the biggest advertising budget of the day. Soon, Vimal had become a household name. However, he had a problem with distribution. He met with resistance from wholesalers in the traditional cloth markets whose loyalties were with the older mills. He solved the problem innovatively by bypassing the wholesalers

and setting up exclusive Vimal showrooms in the main shopping centres of the country. He was able to franchise his name and showrooms to more than 500 retail shops across India.

By 1980 Dhirubhai had become the leader in the textile business and he was again restless. In line with his strategy to integrate backwards, he now decided to make polyester fibre, the raw material for synthetic textiles. However, the government did not allow individuals its manufacture at the time, because it still believed that synthetics were an elite product and not suitable for the masses. Mrs Gandhi was now back in power and his friends were back in their jobs. Although he had friends in high places, he still had to patiently and tirelessly lobby for months with policy makers, demonstrating with figures the experience of other countries and the volume of synthetics smuggled into India. At last the government opened its doors. He and forty-two entrepreneurs applied for a licence, and he was among three who won. His rivals screamed 'bloody murder' and Bombay was abuzz with rumours of pay-offs to politicians.

In order to be the lowest cost producer, he wanted his polyester plant to be of world-scale capacity and of the latest technology. Only then would he be able to sustain cost and quality advantages. He also wanted to be able to continuously upgrade his technology. These ideas were too novel for the regulators. Until now, most Indian plants had been puny, of a 'safe size', based on calculations of a reasonable market share in an economy of shortages. No Indian industrialist had thought boldly in terms of exploding markets, of latent demand, of competing against world players, of discontinuous technologies. The conservative bureaucrats refused to listen to him—despite his connections.

Again, Dhirubhai's people lost months trying to educate the regulators. Eventually they succeeded, but his rivals again yelled 'pay-offs'. Once he had the coveted permissions, his organization went into high gear. They worked at a furious pace to put up the polyester plant in eighteen months. Dupont, who provided the technology, were amazed. 'In our country it would take us not less than twenty-six months to erect and

commission such a project,' said the director of Dupont. As a result of such efficiencies, Dhirubhai's conversion cost of the yarn came down to 18 cents a pound in 1994 compared to 34 cents of Western Europe producers, 29 cents in North America and 23 cents in the Far East. Once the polyester plant was up and running it quickly became a success—within two years its sales and profits outstripped the textile business. With plenty of domestic supply of polyester yarn, Indian textile mills switched to making synthetic textiles.

Having tasted success in the first phase of backward integration, nothing could now stop Dhirubhai from moving ahead with the rest of his dream. In 1986 he announced plans to go backwards to produce the petrochemicals terephthalic acid (TPA) and paraxylene, as well as the detergent intermediate, linear alkaline benzene (LAB). In 1988 he ventured into polymers and floated Reliance Petrochemicals. By now his two sons, Mukesh and Anil, with MBAs from America, had taken over the day-to-day running of operations. They were unusual for the second generation because they had their father's hunger, talent, and discipline. Reliance was moving at such blistering pace that people talked of his 'owning' the government. Otherwise, they said, how could he get the licences and clearances to move ahead?

In 1991, the government's economic reforms unshackled Dhirubhai. They scrapped licensing, and he decided to build the world's largest refinery. He raised money from stock markets for Reliance Petroleum. People asked, isn't there a glut in the market with excess refining capacity? Dhirubhai replied that the rapidly growing Indian middle class had an insatiable appetite. Both Coke and Pepsi, he pointed out, had converted to plastic bottles and crates, and this had led to an explosion in Reliance's polyethylene and PET markets. Plastic furniture was replacing wood and this would ensure a demand for Reliance's polypropylene. Two-wheelers were growing 35 per cent a year and India had already become the world's second largest market.

What captured everyone's imagination was the way

Dhirubhai went about single-handedly creating an 'equity cult' among the Indian middle class. Because the banks would not lend him enough capital, and because he was unwilling to kowtow to the public financial institutions, he turned to the public. In 1977, he first offered his shares to the public on the Bombay and Ahmedabad stock exchanges. Painstakingly, he went around the country, mobilizing funds from small investors. Thanks to him, Indian shareholders increased from one to four million between 1980 and 1985. Of these, one in four was a Reliance shareholder. He succeeded because he delivered what he had promised—steady appreciation in their shareholding. By 1983, a Reliance shareholder had achieved a 75 per cent annual compounded rate of return; by 1986, it was still an impressive 45 per cent. By the mid-'90s Dhirubhai had 2.4 million shareholders. He had become a legend in small towns, where people who had never thought of investing in the stock market had learned to buy shares, to read the financial pages of the newspaper, and to monitor the value of their investment. Dhirubhai single-handedly energized the Indian capital market.

With its millions of investors, Reliance was forced to conduct its annual general meetings in a football stadium in south Bombay. I had bought some shares of Reliance in 1982 and I too showed up at the 1995 meeting at the Cooperage football ground, where I was surrounded by 12,000 shareholders, I was fascinated by the three-hour extravaganza, which was skilfully packaged to entertain and to enlighten us. 'My investors are my biggest bankers,' Dhirubhai declared at the meeting. A senior executive of a foreign bank sitting next to me whispered, 'Reliance is actually a bank masquerading as a petrochemical company!' The next day's *Financial Times* reported in London that it was the largest company AGM ever held.

What is Dhirubhai's secret of success? He succeeded in part because he stuck to his knitting. Other Indian business houses, in contrast, were diversified hopelessly in dozens of business activities. Reliance focused on adding value to a single product's vertical chain—petroleum. Personally too, Dhirubhai concentrated single-mindedly on his business and shunned leadership positions in chambers of commerce and other social distractions. From the beginning, he strove for global competitiveness, and he benchmarked himself with the best in the world. Today, his leading competitors are large multinationals—Dupont, ICI, and Shell—and not Indian companies. Finally, he managed brilliantly the tough environment of the Licence Raj; instead of complaining, he was not shy to engage in the nitty-gritty of negotiation. He played the archaic licensing system to his advantage. For this reason, many people thought that after the 1991 reforms, he would collapse in a freer, competitive environment, and the Reliance bubble would burst. The opposite happened—his performance has improved year after year.

Today, Dhirubhai's two sons, Anil and Mukesh, run the business. Like their father, they are single-minded and they put in long hours. So single-minded in fact that Anil Ambani took a direct flight home to Bombay four hours after completing his final exam at Wharton. After he had shaved and showered, he was taken to the office within an hour of his arrival. Within days, Anil was sent to Naroda, near Ahmedabad, to look after the textile plant. As he was leaving for Naroda, Anil asked, 'What about a holiday?' Dhirubhai replied with a smile, 'Naroda is your holiday, son.' I met Anil Ambani in the late 1980s when he came to sell us LAB for our detergents at Procter & Gamble. I was impressed by his foresight. We had not yet decided to enter the detergents business, and I told him so. He gave me five good reasons why we should. I thought to myself, 'Here is a good salesman—he is telling me how to run my business.'

The Reliance story is an inspiration to many young people all over India. The start of his refinery in July 1999 sent a powerful message to all Indians with global ambition that dreams could become real. In the year 2000, Reliance expects its turnover to cross $10 billion. It is common, especially in Bombay, to hear youngsters say, 'If only there were ten Dhirubhais.' However, there is another side to the story.

Dhirubhai faced terrible difficulties. Everyone tried to stop him. Especially celebrated was his spat with his powerful rival, Nusli Wadia, which filled the pages of the *Indian Express* for months together. His real enemy, claim his sympathizers, was the government. His critics contend that he controlled and manipulated the government. What cannot be contested is that at each stage he had to fight to prove that government policies were wrong. It took decades for the government to realize that synthetic textiles were not a rich person's fabric and did not deserve to be punished with luxury taxes. It took years of lobbying to get the government to open petrochemicals to the private sector. It took months of negotiations to make the government realize that world-scale plants would be the most efficient. He had to move mountains to get the controller of capital issues to agree to his pioneering financial instruments, such as convertible debentures for his shareholders.

Dhirubhai's story is an Indian morality play. At one level, it is a classic rags-to-riches story. It is about the ascent of a simple village boy who created against all odds a world-class, globally competitive enterprise to become the most powerful businessman of modern India. At another level, it highlights the dilemma posed by a decaying and corrupt system. Does one give up one's dream of an outstanding, self-sustaining enterprise defeated by retrograde laws or match wits against the system?

The inevitable conclusion from Dhirubhai's story is that a world-class enterprise—with global capacities, rapid response to customer needs, vertical integration—could never have been created under the laws that prevailed in India between 1965 and 1991. For one Dhirubhai who succeeded, there were hundreds of others who failed.

14

Licence Raj

> No system of regulation can safely be substituted for the operation of Individual liberty as expressed in competition.
>
> —*Louis Brandeis*

In the spring of 1981, I was thirty-eight years old and managing director of Richardson Hindustan. We had recently returned after five years in the Spanish-speaking world, in Mexico and Spain. I had gone to Mexico soon after the Emergency to run Richardson Merrell's food and nutritional business. Now, I was thrilled to be back, as head of the company where I had started at the bottom seventeen years ago. Our children were ten and eight and we thought it was time they began to learn to become young Indians.

My homecoming was spoiled, however, because our Indian business was in serious trouble. Profits had plunged because of rigid, poorly administered price controls. Labour relations had become adversarial. The quality of our products had suffered, partly because of an obsession with volumes in a price-controlled environment. The company had no cash, the morale was poor, labour was hostile, and one-third of the managers had left the company in the past year.

On a busy day in March, I got a call from Orville Freeman, inviting me to participate in 'a three-day industry and government round table'. The former US secretary of agriculture was now running a business that had the laudable objective of improving the relationship between business and government. I told him that my company was in trouble and I did not think I could spare the time. He persuaded me easily, saying that it was the opportunity of a lifetime to dialogue with ministers and civil servants in a unique atmosphere. The icing on the cake, he promised, was a breakfast with Indira Gandhi, who had returned to power in the 1980 general elections.

At the round table, I was surrounded by the 'greats' from both the industry and the government. After the first day I said to myself that this is hardly a dialogue—the government speaks and industry listens. The captains of industry were a meek flock. Pranab Mukherjee, the finance minister, was totally closed to any new idea and embarrassingly arrogant when he answered questions. L.K. Jha, on the other hand, was remarkably open as he confessed that the government had made some mistakes in the past and it was time to change and open up.

The next day was a ringing spring morning—one of Delhi's best. We were ushered into the PM's garden. Mrs Gandhi looked charming, surrounded by spring flowers. She wore a white Bengal cotton saree with a narrow red border and looked cultivated, aloof, and imperious. She was not a particularly good speaker, although she had the instinctive ability to come up with the right phrase. Looking at her, it was hard to believe that this unimposing woman was the astute politician who had single-handedly destroyed the old Congress bosses and emerged the new messiah of the poor in the 1971 elections. She had dismembered Pakistan after a victorious fourteen-day war and given birth to the new country of Bangladesh. She had stood up to President Nixon of the United States (having been unimpressed by his diversion of the Seventh Fleet with its nuclear-powered aircraft carrier to the Bay of Bengal) and had declared an Emergency in order to perpetuate her rule.

After a brief speech, she opened the forum to questions. A few sycophants from the industry got up and eulogized her for her achievements. Then, there was silence. Not a single person was willing to risk a hard question. This is embarrassing, I thought. Surely, someone will get up. Just as she was about to close the forum, I got up and decided to take my chances. 'Madam Prime Minister,' I said. 'May I have your views on two subjects that have been troubling me? The first concerns a friend of mine who cannot introduce a new product into the market because he does not have a licence. Meanwhile, his competitor has pre-empted all the licensed capacity. What should he do?'

Mrs Gandhi turned to one of her advisers and then artfully defended licensing. 'We are a poor country, you see; we have limited resources, which we ration through the licensing system. If we let anyone produce what he wants we will have no foreign exchange left for the country's necessities.' All very plausible, I thought, but very bad economics all the same.

'It is a brilliant new product, madam.' I persisted. 'What do you think he should do?'

'Has he made a proposal?' she asked.

'Yes, it was rejected by the DGTD because of excess capacity in the industry.'

'Send me the proposal,' she said. Surely, it was wrong for the Prime Minister of the country, I thought, to get into such matters. 'I was wondering, Madam Prime Minister, shouldn't the market decide what should be produced?'

'Does the market always make the right decision?' she asked.

'Not always, madam, but always better than bureaucrats,' I said.

'Ah, we have a market-wallah, do we?' She smiled and gave me a look as though I belonged to the school for the mentally disabled that she had opened the previous day. Others laughed as well and the tension eased.

My second question related to the high cost of our products. I suggested that if we brought down our exorbitant excise taxes and import duties, costs would come down, goods would become

cheaper, markets would begin to grow and government revenues would boom. Mrs Gandhi shook her head and gave me the same indulgent look. Patiently she explained, 'I don't think industrialists will pass on lower taxes to consumers; lower import duties will fritter away our foreign exchange reserves and businessmen will again clamour for protection because they won't be able to compete against imports. As for income taxes, if we lower them, who will pay our salaries?' She smiled charmingly. The audience laughed again. I was unconvinced. She had a static view of the economy, which ignored the power of competition and growth. She also had a poor opinion of businessmen.

My questions emboldened an American businessman to get up. He said, 'My issue, Madam Prime Minister, is with the government's insistence on limiting foreign ownership in companies to 40 per cent. Consequently, multinational companies have lost interest in India. And your country is neither getting investment, nor technology.'

Mrs Gandhi sniffed the air. Her advisers began to get impatient. 'We want to be self-reliant,' she said. 'Our foreign investment laws have parliamentary sanctity. We want multinationals to bring technology and we permit them 51 per cent foreign equity. We don't want multinationals to sell Vicks Vaporub, like our young friend here.' She looked at me and there was more laughter.

With great charm, on that spring morning, amidst shining marigolds, Mrs Gandhi had attempted to preserve three myths of the *ancien régime*—the value of licensing, the importance of high taxes, and the need to limit foreign investment. As I was leaving the PM's house, an elder statesman of industry nudged me and whispered, 'Watch it, young man!' I turned around, but he was gone. Since it was a nice morning, I decided to walk. I walked along the wide, tree-lined avenue towards Raisina Hill and past what Andre Malraux had called the 'colossal vistas of red sandstone with Sikh guards presenting arms in the solitude'. Malraux was right. It was only the departure of the British that had given this soulless architecture some sort of soul. It seemed

to become great only when it became a tomb of the Raj in a city that had a surfeit of tombs. It seemed right that it was Mrs Gandhi with her old myths who presided over these tombs like a grand priestess.

I asked myself why she could not see what I saw. The sheer number and diversity of enterprises in India backed by vast human energy and talent was so impressive. From the largest, Tata Steel, to the millions of artisans, wholesalers, and street vendors—I saw a deep source of strength not available to many other economies. We had the sophisticated underpinning of trained managers and professionals and a capital market, with ready availability of specialists in advertising, audit, and legal services. Linked to it was a formidable diaspora of non-resident Indians who could mobilize capital and knowledge of overseas customers and markets. Yet, India failed to perform. Alas, it was precisely because of the attitudes that I had observed that morning. We were shackled by the excessive regulation of a heavy-handed state which was suspicious of profit, yet happy to seek rent; this combined with protection and fear of foreigners had left a weighty legacy of uncommercial habits. How long would we stand and watch our talents and our strengths consistently undermined?

The economic reforms came in 1991 and exploded Mrs Gandhi's myths of the Licence Raj. With the scrapping of licensing our foreign exchange reserves did not decline. The Indian entrepreneur, freed from control, responded with new investment. Lower taxes did not destroy government revenues. Competition ensured that lower import and excise duties were passed on to consumers. Demand rose and markets grew. Lower income taxes brought greater compliance and more revenues for the treasury. Direct taxes in 1995–96 accounted for 29 per cent of revenues compared to 19 per cent in 1990–91. Foreign investment rose thirtyfold, but we did not lose our sovereignty. A senior bureaucrat, looking back, admitted to me in a fit of candour, 'How could I have administered such lunatic policies?'

After the interlude in Delhi, I plunged into the serious

business of turning around my company. First, I dealt with the labour problem, which I concluded was a management problem. To begin with, I had to replace the personnel manager, who believed in 'sticking it to the workers'. And the workers, I am sure, would happily have done the same. I got a new personnel manager, Ginil Shirodkar, who felt that we needed to change attitudes on both sides. Both of us agreed that we ought to be transparent with the union and the workers, sharing our troubles and our triumphs. The workers were shocked that we were not making money; it took months before they believed us. A year of patient and constant dialogue succeeded in winning their trust, attitudes changed, and we signed a three-year productivity-linked contract.

I held the belief that every employee in the company could grow. To help people grow we needed to invest in training and developing them. I was also convinced that a consultative and participative style was more effective than an authoritarian or paternalistic one. My premise was that achievement was the best form of motivation. Shirodkar shared these beliefs and helped me in creating an open, people-oriented workplace. As a result, motivation rose rapidly and executives stopped leaving us.

Meanwhile, the government relaxed the Drug Price Control Order in 1982. We were able to raise prices and we became profitable. As productivity improved in the factory and motivation improved among managers, profits rose. So did the price of our shares on the Bombay Stock Exchange. As our surplus grew, we got the opportunity to offer bonus shares. I wanted our employees to share in this prosperity. However, government rules did not permit it. We put up a fight with the Controller of Capital Issues. I argued that our performance would improve if employees were to behave like 'owners' of the company. The controller thought that this might be a fraud by the employees to steal money from the company. He could not believe that 'participative' management might work. In the end, I made such a nuisance of myself that he got tired of saying 'no' and after nine months reluctantly allowed us to

offer 5 per cent of the bonus shares to employees. Our investment bankers helped Shirodkar devise a formula to distribute the shares fairly, depending on performance and seniority. Everyone got shares. I had hoped that they would hold on to them for at least three years, but as the share price rose from Rs 20 to 400, the majority sold out after three months. Many employees eventually built homes from their capital gains.

My father worked hard all his life and retired with a meagre pension. His only savings after a lifetime of work was our house in Chandigarh. All of us loved the house, especially my youngest brother and sister, who had spent their happiest years in it. It sprawled on a quarter of an acre, facing the lower Himalayas and Kasauli, which nestled 7000 feet above. Chandigarh was an attractive town with wide boulevards, parks, and trees, with the bonus of Le Corbusier's brilliant sculpture-like buildings.

One morning my father was in a hurry. He was late for an important meeting when our young neighbour came around and asked him to sign an innocuous-looking paper. 'It is a simple procedural matter,' he said. My father signed the paper in a neighbourly spirit. It turned out that my father had signed his house away. Our neighbour and his vivacious and statuesque wife had moved in the previous year. After working for a company in Bombay, they had decided to become entrepreneurs. They planned to set up a malt factory to supply the rapidly growing beer industry. They were young and energetic, and their excitement infected the neighbourhood. My father's signature got them a small loan of Rs 200,000 from the local bank. Other loans followed.

When people realized that our neighbours had money, they began to make demands. The bank manager who had advanced the loan wanted his share. The factory inspector came as the equipment was being installed and he would not give them a clearance without being paid. The engineer of the State Electricity Board was unwilling to give their factory

power if he was not compensated. The boiler inspector had to be paid. The labour inspector wanted his cut. The excise inspector told them that they could not hope to start production without an excise number, for which they had to pay his fee. Meanwhile, the minister did not want to be left out. He threatened to change the rules, which would prevent them from supplying the breweries. Our neighbours were not deterred and they struck a deal with the politician. They agreed to give him a share in the company, and he rescinded his order.

Over the year, we noticed that our neighbours' standard of living rose visibly. He got a new car. She began to sport expensive jewellery and saris. One day they borrowed the papers of our house 'for a few hours', saying that the bank needed to verify them (in support of the letter that my father had given). That was the last that my father saw of his house papers. He did not know that the bank had called back the loan. We did not know that our neighbours had run out of money and were yet to produce a single kilo of malt. They were bankrupt, and our house was lost to the bank.

It is a harsh life for an entrepreneur. He has to bribe from twenty to forty functionaries if he is serious about doing business. The nationalized banks are encouraged to give loans to entrepreneurs, but the bank managers often want a cut. Our neighbours were crooked for they spent the bank's money on themselves. In another place, they would have had to either return it or go to jail. This does not happen in India. Hence, hundreds of thousands of small enterprises have become officially 'sick'. The entrepreneurs are able to walk away as freely as our neighbours did. The bank auctioned their factory, it is true, and recovered part of its dues. But our neighbours did not do too badly in the end. The bank did move the courts to recover the remaining dues, but the Indian legal system is so slow that it is unable to catch any crooks. For this reason, we did not physically lose our house.

Soon after retiring, my father shifted to the ashram of his Radhasoami guru on the banks of the Beas and spent the rest of his life in quest of the spirit. My mother accompanied him

and they set up a middle-class home with modern conveniences—hot and cold running water, a modern kitchen with a refrigerator and gadgets, and even air-conditioning. My father took charge of a vigorous building programme initiated by the guru. He built roads, prayer halls, dormitories for the devotees, and a large hospital. For the next twenty-five years, he meditated two hours a day and lived an enormously busy and fruitful life.

I visited my parents often, and on each visit the quiet efficiency, the organization, and the easy use of technology struck me in their clean spiritual haven. Science seemed to combine well with the spirit. Everything worked. It was a dramatic contrast to the world outside—especially the soiled world of the public sector. The Radhasoami faith fused an ascetic form of spirituality that went back to ancient Vedanta with an international managerial style that reflected the modern, casteless outlook of its devotees. The community had expanded rapidly over the decades, across India and to many parts of the world, and numbered more than a million initiates.

Sceptical of religion and shy of certainties, I was impressed by the scientific temper of the guru. Our purpose in life, he said, was to connect with the spirit. We could do this by conducting a series of experiments with our consciousness through the practice of meditation. Religion was an uncertain, searching path and not an exclusive institution. There were no readymade solutions—only hints, suggestions, and one had to seek out the answer for oneself.

In the evenings I used to walk along the river in silence. Along the banks grew giant reeds and bulrushes whose stems had been bleached by the sun. I breathed draughts of pure river air and gazed at the evening sky filled with silence. I looked down the river into the horizon and I thought of our ancestors who had lived on these lands and recorded their primordial experiences in man's first book, the Rig Veda. From these river banks, Vedic civilization had flowed into the valleys of the Ganges and spread across the rest of India. Occasionally I felt the pull of the old culture, but I was unable to resist the

seductive charms of the other, more virile one of the West that had become the dominant culture of the world.

In the autumn of 1982, I began a series of visits to New Delhi. Our manager in Delhi, Virender Khaneja, would set up the meetings in advance and together we would trudge the corridors of power to kowtow before civil servants and politicians. We were supplicants—seeking price increases, approvals to introduce new products or expand our production capacity, defending our foreign ownership, and dozens of things which needed government sanction. Often our finance director, Sumit Bhattacharya, would accompany us. He was a quiet man; he listened well, and he commanded respect when he gently interjected his point of view. In contrast, I was passionate and obsessed. It was difficult to make me stop when I started in on the regime of controls. Khaneja constantly worried that I did not give the officials sufficient respect. The bureaucrats and politicians would usually brush us off, but sometimes they would surprise us and actually listen.

I flunked my biggest test when I failed to retain majority ownership for my parent company. Since the late 1970s, the government had been pressuring foreign companies to lower their foreign equity to 40 per cent under the Foreign Exchange and Regulation Act of 1974 (FERA). Mrs Gandhi had enacted this law in 1974 in a fit of nationalism and populist politics. Some foreign companies had left India rather than dilute ownership, including IBM and Coca-Cola during the Janata regime. New foreign investment had come to a halt. Executives at our US headquarters were afraid that the company might lose control if it reduced its holding. They felt upset that they had to give up majority ownership to faceless Indian investors in a subsidiary that they had founded and nurtured from birth.

The exception to this 40 per cent rule was foreign companies engaged in 'high technology'. They were allowed to retain majority control, presumably because the country needed them. But how was one to prove that one had 'high' and not 'low' technology? This was a dilemma for bureaucrats as well as for

the companies. With bureaucratic thoroughness, the government set up a committee of scientists to try to establish the criteria. But the scientists were foxed. Nobody had faced this problem, and the committee could not come up with objective criteria to establish a 'high technology' company. Political pressures prevailed in the end, and most companies agreed to come down to 40 per cent.

My company did not qualify. Nevertheless, we put up a strong defence based on our technological contributions in agriculture. I brought in agricultural experts to argue that our R&D station in Uttar Pradesh had adapted the *Mentha arvensis* plant to Indian soil conditions, raising its yields and making it disease resistant. I explained that we had pioneered a new crop in India, provided employment to 60,000 farmers and farm labour, and made the country self-sufficient in menthol. We made three major presentations. We spoke to ministers, bureaucrats, politicians—to anyone who would listen to us. But it was to no avail and we were ordered to dilute our foreign ownership in thirty days.

I flew to Wilton, Connecticut, where the international management of Richardson Vicks was in an angry mood. I defended the importance of sticking it out in India. I explained that there was no risk of losing control because they still owned the trademarks, which under Indian law they could withdraw. Without the trademarks, the company was worthless and a hostile takeover impossible. I said that our company was doing well and growing. We should keep building the business and one day majority ownership would be restored and their dividends would be much higher on a larger volume base. Reluctantly, they agreed, but only after roundly cursing the Indian government.

Since there was nothing to lose now, I decided to go public. I wrote a series of articles in the *Times of India* and the *Economic Times* on the harmful effects of FERA. I talked about India's desperate need for foreign investment and technology. I showed that countries open to foreign investment were outperforming the closed ones and none had lost their

sovereignty. I called our xenophobia the symptom of an inferiority complex and ultimately suicidal. After the articles appeared, I got many congratulatory phone calls and letters, but I also became unwelcome in some government offices.

My visits to Delhi now became more painful. My lowest moment came when I was summoned to meet a joint secretary in connection with our application for a new product. He insisted that I rush to Delhi immediately. Indian Airlines, the government monopoly carrier, used to run only three flights a day to Delhi, and seats would get booked weeks in advance. So, it was not surprising that I was 182 on the waiting list. (Ten years later, after the reforms, there are twenty-two flights daily between Bombay and Delhi.) We asked if the appointment could be postponed and the answer was negative.

Despite the hopeless situation, I decided to take a chance on the six o'clock flight the following morning. I arrived at the airport at 4:30 a.m. Our administration manager and travel agent came to assist me. We begged and pleaded with the duty manager for a seat. By extraordinary luck, a foreign travel group did not show up—their flight from Aurangabad was cancelled the previous night—and I was able to get a coveted seat. The flight, however, was five hours late, which was not unusual for Indian Airlines. While I hung around the airport, waiting listlessly, my office was able to shift my appointment to 2 p.m. On arriving in Delhi I went directly to the ministry from the airport, just in time for my appointment. I was told that the joint secretary was away on a long lunch, but I should wait. He came back after an hour but got busy 'on an urgent matter'. I swallowed my pride and waited for another two hours outside his smelly office. I had been warned that the officer was hostile to multinational companies and enjoyed making executives wait. Finally, at five o'clock I was led into his paper-strewn office. He sat smugly in his chair, reading the afternoon paper. After five minutes he put down the paper and looked up at me.

'What is it you wanted?' he asked.

'It is you who wanted to see me,' I said politely, but without inserting 'sir' in my reply. Having grown up in the US,

I could not get used to saying 'sir' to people in authority. He rang for his secretary and asked for our file. Since the file took time to locate, he decided to lecture me on foreign 'devils'. 'They are all CIA spies, you know.' He asked me about the car I drove and the foreign trips I took. 'Real perks, eh!' he said. I began to feel ridiculous. At last the file came. He glanced at it and said, 'Can't do anything about it, I'm afraid.'

'Can't do what?' I asked.

'What is it you want?' he said, impatience showing in his voice. I explained that we were seeking approval to introduce a new product. He replied that he needed time to study it. 'It is not a straightforward thing.' I asked why had he wanted me to rush to Delhi, especially when he knew that there were no seats available. 'Why, so that we could get to know each other,' he smiled malevolently. He started to talk about capitalism. He said that the market might work in other countries, but in India it could not because Indian businessmen were dishonest. I tried to convince him that the market took no notice of the character of the player. Competition between two dishonest businessmen was better any day than the monopolies created by the alliance between politicians and businessmen. He was unmoved. I asked him when we could expect a decision on our file. 'Can't say. It's complicated business.' With that, he noisily pushed back his chair, which was the bureaucrat's signal that the interview was over.

It was the end of a long and tiring day, and a feeling of defeat and futility overtook me. I felt like Sisyphus, condemned to push a rock up the hill, only to see it come tumbling down just as it reached the top. I looked out at the evening sky and understood how Sisyphus must have felt. I also knew that I had no choice but to start afresh the following day. I wandered about aimlessly until it was dark. Soon, I spotted an empty taxi and got in.

By the time we reached India Gate it was pitch-dark. Like animals possessed by a strange uneasiness, a few poor men were prowling along the pavements, sometimes in shadow, sometimes lit by the headlights of the passing cars. The street

lamps threw a pallid light in the compact darkness. I told the driver to go to the Yamuna near Nizamuddin. There I got out and walked over the stones onto the dry bed of the stream. It was not an easy walk over the stones between brambles and stagnant pools. Nearby a stream of dirty water was flowing quietly. I wandered about the rubbish dump of the slum colony. The air was black and smelt of smoke in patches. Scattered among the refuse were packing cases with plastic roofs that bore witness to the presence of human life. Amidst the poverty in the gutter, the feeling overcame me that it was the Licence Raj that frustrated the attempts of the poor to rise.

Sam Pitroda was one of our few bright spots in the 1980s. I met Sam on one of my visits to Delhi. I discovered that we were born in the same year. Unlike me, he came from a poor village in backward Orissa, where there was no electricity, no telephones, no running water. He was of lowly carpenter caste, and his early education took place in one-room schools where most of his classmates had no shoes or books. By the time I took over as head of Richardson Hindustan Limited, he had become a self-made telecommunications millionaire in America. By then, he had brought his parents and his eight brothers and sisters to the States, and they were living the middle-class, suburban dream.

All his life Sam had dreamt of wealth and success, and when they came, he suddenly felt guilty. The huge gap between his luxurious life and the struggling poverty of his Indian village bothered him. Sam was a technology buff. He had done his best work at GTE in Chicago with analogue-digital conversion technology, and had nearly thirty patents to his credit. Sam believed that technology had profound effects, and a modern telephone system could revolutionize India. It could bring about 'openness, accessibility, accountability, connectivity, democracy, decentralization—all the "soft" qualities so essential to effective social economic and political development,' he said. 'It was not so much wealth that created telephone density as telephone density that created wealth.' Here was a man who

believed that telephones were as important to nation building as other necessities.

Filled with these thoughts Sam Pitroda returned to India. Here, he found the opposite mindset. Indians, and Gandhians in particular, believed that telephones were a luxury and it was wrong to supply state-of-the-art technology to villages; they needed 'appropriate technology' (the buzzword of the 1980s). A poor farmer did not need a telephone but water, literacy, and basic health care. As a result, India had only 2.5 million telephones in 1980 and most of them were in the big cities. It had only 12,000 public telephones for 700 million people. Managing this system was a rigid bureaucracy of a quarter-million employees. Millions of people were waiting in line to get a telephone. Those who had one needed to know someone in the telephone department to get any service. The telephones that existed were not dependable—it was rare to get a number on the first attempt. The employees of the telephone department were arrogant and corrupt. If the line went down, it could take months to fix unless one bribed the linesman.

Sam was going to change all this. He decided to start at the top, with Mrs Gandhi. After waiting five months to get an appointment, he met her and impressed her. He also met her son, Rajiv Gandhi, with whom he struck a chord. He told them that he could bring telephones to villages, improve customer service, change to digital switching, and he could do all this for very little. To everyone's surprise, the government bought his dream. He began with a core group of young R&D engineers to develop the hardware and software which would set India on the path of universal telephone accessibility. It was called C-DOT, a private non-profit society funded by the government with a $36 million corpus to develop a digital switching system suited to the Indian network. 'We found five rooms on rent in a government hotel and we went to work using beds as desks.' Sam earned one rupee a year, inspired by Roosevelt's dollar-a-year men of the New Deal. It was an unusual arrangement for Indians and his motives were the subject of constant speculation in Delhi.

Soon Sam Pitroda had built an organization of 420 young scientists and technicians whose average age was twenty-six. They worked in an open, American style, with optimism, teamwork, flexibility, and simplicity. In three years, they delivered a 128-line rural exchange; they created a private, automatic branch exchange for businesses; they developed a small central exchange with the capacity of 512 lines. They licensed some forty public and private companies to manufacture and market their products. Based on his success and his personal equation with Rajiv Gandhi, who was by now Prime Minister, Sam was promoted to head the Telecom Commission and given the status of minister of state. As head of telecom, he began to implement his dream. He got the thirty-seven telecom unions to agree to quadruple the number of lines without adding to the workforce. He replaced existing electro-mechanical equipment with indigenous digital equipment. He set up two factories to manufacture fibre optics and he began to build a high-speed fibre optics highway to connect the large cities. He connected the 400 district headquarters with automatic dialling and introduced international direct dialling to more than 120 countries. By 1990, there were five million telephones and a million new ones being installed every year, which went up to two million in a few years. By the end of 1998, there were twenty million telephones and the waiting lists had practically disappeared.

However, Sam's idea had gone much further. He had realized that if more telephones could be put in the bazaars, millions could be brought within reach. The coin-operated public phone was not a good idea because it was expensive and it quickly deteriorated in the heat and dust of India. He and his team came up with a simple idea: equip ordinary telephones with small meters; put these into the hands of thousands of entrepreneurs, who would set them on a table in the bazaar. He himself would go back to America but his scheme unleashed a revolution. By 1998 there were half a million Public Call Offices in bazaars across the nation, most of them offering long-distance phone calls, and they had created 1.5 million new jobs. By 1995, 100,000 villages had telephone service through the rural exchanges. By 2000, three-quarters of India's half a million villages had telephone service.

Sam Pitroda's story ended badly. Rajiv Gandhi was defeated in the elections at the end of 1989. Sam came under political attack from the minister in the new government, who accused him of corruption. Although many people came forward in Sam's support, the strain was great and he had a heart attack. His family moved back to the US and he was a broken man. Rajiv Gandhi was assassinated in May 1991 and with that Sam's connection with India virtually ended. Thanks to his revolution, however, I can now dial my mother in a village in Punjab from our farm in coastal Maharashtra. Apple farmers in the Himalayas take harvesting decisions based on a call to the wholesale market in Bombay. The improvement in our phone services has made it possible for India to participate in the information technology revolution. India is becoming a major exporter of software and information technology services. The improved connectivity is enabling dozens of Internet start-ups and e-commerce ventures. All of them owe a small debt to Sam Pitroda.

Sometimes I think that if Sam had not been sacked, he would have ushered India quickly into the new era of telecom privatization, technology convergence, and the Internet. Unfortunately, the government has made a mess of bringing competition in both basic and long-distance services, as is being done around the world. With all its improvements, India's telecom is still unresponsive and below par. Because of their monopoly, the employees of the Department of Telecommunications are still arrogant and corrupt. They remain the ugliest face of the Licence Raj.

PART THREE

The Rebirth of Dreams
(1991–99)

A nation has character only when it is free.

—James Wilson

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The Golden Summer of 1991

All reformers are bachelors.

—*George Moore*

History is full of ironies. The economic revolution that Narasimha Rao launched in the middle of 1991 may well be more important than the political revolution that Jawaharlal Nehru initiated in 1947. It is the same in China, where the economic revolution that Deng Xiaoping introduced at the end of the '70s is more important than Mao's revolution of 1949. Yet, Rao behaved as though he did not believe in his revolution. And the people responded with a verdict that booted his party out.

How does one begin to explain the defeat of the Congress in the 1996 general elections? The '90s had been among the best years in India's economic life. Apart from delivering outstanding macroeconomic results, the reforms created a sense of confidence and excitement. Many people felt the same sense of possibilities that existed in the early '50s. The *Economist* called India an 'uncaged tiger' in a cover story. Yet, no one in India celebrated the reforms. Rao did not stand tall and take credit for his historic achievement. The Congress party did not

bother to make its finest achievement an election issue. It is true that the average voter did not understand the details of the reforms, but he was not unaware of his improved economic circumstances. One explanation for the Congress defeat is that people perceived Rao merely as a gatekeeper to history—he was there at the right time when history broke. They did not credit him for their improved lot. To understand these ironies, it is necessary to see how the reforms unfolded, step by step, in the golden summer of 1991.

A human bomb killed Rajiv Gandhi in May 1991. He was in the midst of an election campaign, and his death sent around a wave of sympathy that carried the Congress to victory. The party chose Narasimha Rao as Prime Minister. It chose him because he was seventy, quiet, dull, and he threatened no one. He had been in the top political circles in a long career, and had managed the major ministries of the government with distinction—although he had never held an economic portfolio. He was also an intellectual and knew nine Asian and European languages. He was getting ready to retire from Parliament when the party installed him as its 'stopgap leader' to head a minority government which no one thought would last very long. However, he surprised everyone as he unleashed the biggest revolution in India since 1947.

The financial crisis was long brewing. Its main cause was the profligate and short-term commercial borrowing resorted to by Rajiv Gandhi's government since 1985. When the Gulf crisis came and oil prices went through the roof, India found that it had no money to buy oil. The country's forex reserves had dwindled to a dangerous level and there began a flight of capital by non-resident Indians. When Rao came on the scene a dialogue had been going on with the IMF for a bailout package. But Rao's predecessors, Chandrashekhar and V.P. Singh, had not been brave enough to face the crisis. Rao understood that India was bankrupt and his first and most important decision was to get a good finance minister. He did not trust a politician to do the job; he wanted a professional. He thought of the distinguished I.G. Patel, who had recently returned to India after heading the London School of Economics. But he was identified with Morarji Desai in many Congress minds. Rao also wanted a younger man, and he concluded that the reticent and soft-spoken economist Manmohan Singh might be a better choice. He had had an equally distinguished career in which he had been governor of the Reserve Bank. He had recently headed the South-South Commission in Geneva and during this time had made a serious effort to understand the East Asian miracle. That is where he realized that India had to abandon many of its old and foolish policies.

The President swore in the new cabinet on 21 June 1991. The next day Rao announced to the nation that there was a crisis and his government intended to 'sweep the cobwebs of the past and usher in change'. Manmohan Singh's first act as finance minister was to ask S. Venkitaramanan, the Reserve Bank governor, and C. Rangarajan, his competent deputy, to fly up to Delhi. The following day the three informed the Prime Minister that the country was bankrupt. Reserves were down to two weeks of imports. They knew that the only hope was a loan from the International Monetary Fund. Indeed, negotiations with the IMF were in an advanced stage with the previous government. Somewhere along the way, the cautious Narasimha Rao realized that the crisis was an opportunity for making bigger changes.

He called a closed-door meeting of important opposition leaders where Manmohan Singh acquainted them with the seriousness of the situation. Only a loan from the IMF could bail us out, he said. However, we had to first put our house in order. He spoke about the need for basic reforms. Short of telling them that he was going to devalue, he sought their support for the tough actions that the government intended to take. After that, the finance minister spoke to M. Camdessus, the managing director of the IMF, promising him major reforms in trade and industrial policy.

The government devalued the Indian rupee by 20 per cent in two steps over the first three days in July. Manmohan Singh

thought it prudent to devalue in two stages to minimize adverse reaction. After the second devaluation, he met P. Chidambaram, the new commerce minister, and Montek Singh Ahluwalia, commerce secretary, and told them that he wanted to abolish the export subsidy (known as the Cash Compensatory Support—CCS). He argued that the devaluation had made CCS redundant by giving the exporter the same incentive through a cheaper rupee. Its abolition would help him reduce the fiscal deficit significantly—by 0.4 per cent.

Chidambaram's first reaction was that it would be political suicide for a new commerce minister in the first days at a new job. CCS, he argued, was his most important instrument for encouraging exports. How would he face exporters? 'Let me think about it,' he said. Manmohan Singh replied that he would have to think quickly because the PM wanted to announce it the following morning. Chidambaram sulked, but he had to agree in the end. He asked if he could also announce a comprehensive trade reform at the same time. The finance minister asked, 'By tonight?' Chidambaram nodded. They agreed to meet in the evening to review the trade proposals.

Although it was his first assignment in an economic ministry, the new commerce minister had proved to be a fast learner. During his first week on the job he had put in long days and nights and understood the major issues. He had read reports voraciously and realized that the country desperately needed trade reform. A Harvard MBA, Chidambaram understood business, and he was instinctively for opening up. As a lawyer for industry, he had seen the damage caused by the old policies. Before taking over as minister, he had half jokingly told D.R. Mehta, the chief controller of imports and exports (CCIE) that he could understand the first half of his job, but not the second. If the country wanted exports, why did it need a controller? He also told the CCIE that if it were up to him, he would burn every copy of the infamous Red Book—the commerce ministry's bible, which minutely spelled out the controls applicable to thousands of products. Dreaded by businessmen, it was a 'rent-seeker's guide' for the 1000-strong staff of controllers in the CCIE's department. The earnest controller was not amused.

On returning to his office in Udyog Bhavan, Chidambaram called in Montek Singh and D.R. Mehta. He asked them if they were up to dismantling the trade side of the Licence Raj. Although it had taken over forty years to build, they had only eight hours to demolish it. He could tell from their faces that Montek was, but Mehta was not. He told Montek, 'Let's work in my chamber. I am a lawyer and used to dictating briefs, so it will be quicker.' They knew that their main job was to kill import licensing. If they could replace licences by a marketable incentive, there would be no need for them. Because of foreign exchange scarcity, exporters used to be given licences to import materials that went into making products for export. Montek Singh knew of such an incentive; it had been kicking around the ministry for several years. Called Exim scrips, it would allow exporters to earn foreign exchange for part of the value of their export. They could sell these in the market or directly import goods. Non-exporters or domestic industries that needed to import raw materials, instead of applying for an import licence, could buy the Exim scrips in the market.

Chidambaram loved this instrument because it would eliminate the bureaucrat from the process. He grabbed it and within hours the two men eliminated miles of red tape, months of delays, and the hassles, anguish, and corruption that the Indian state had built up over decades. They worked like maniacs and by seven o'clock they had a dramatically liberalized trade policy. Manmohan Singh was pleased when he saw the proposals. They would provide a signal to the world that India was opening up and moving to a sensible, market-determined exchange rate. The three then went to the Prime Minister's house at 9 Motilal Nehru Marg.

Narasimha Rao came out of his bath, looking fresh in a lungi. Chidambaram sat next to the PM and briefly explained the proposals. The PM turned to Manmohan Singh. 'Do you agree with this?' he asked. Manmohan Singh nodded. 'In that case, sign it.' Manmohan Singh did so, and the PM penned his

own signature at the bottom of the page. Thus began the most comprehensive structural reforms in India's history. The specifics of some of the proposals went over his head, but Narasimha Rao was satisfied with their general direction to deregulate. He also trusted his three visitors. To those who understand the tortuously slow pace of decision making in the government, this was a revolutionary event. Four men with commitment and courage had achieved what seemed impossible twelve hours ago.

To Chidambaram's credit, the following year he agreed to abolish Exim scrips for an even better arrangement—dual exchange rate—that cut red tape further and eliminated the bureaucrat from the process. It was courageous to sacrifice an instrument with which he had become identified and to which he had given birth. The country kept growing intellectually and the following year the finance ministry introduced the unified exchange rate, an even better mechanism, which took India to currency convertibility on the trade account. Having gone this far, A.N. Varma and others suggested to Manmohan Singh to go all the way and make the rupee convertible, but he was too cautious and unwilling to go the full distance. The rupee is still not free on the capital account. Many argue that his conservatism has been a blessing for India as it has spared it from catching the 'Asian flu'. Chidambaram's major failure in 1991 was his inability to close the massive departments of CCIE and the Directorate General of Foreign Trade, who continue to do mischief and are a major stumbling block for our exports.

Rao now wanted to dismantle the industry side of the Licence Raj. He had watched Rajiv Gandhi's modest attempts at reform in the 1980s. Even these small efforts had yielded significant benefits. He had travelled abroad and he knew what was happening in the world. The collapse of communism had pulled the rug from under the planning and controlling state. So, he had deliberately decided to retain the industry portfolio. He brought in A.N. Varma to become his principal secretary to drive this process. He remembered that Varma had championed

delicensing in a large number of industries during V.P. Singh's government when he had been industries secretary. He asked Varma to dig up the old proposals. Varma was delighted that the reform package that he had prepared with Rakesh Mohan might finally see the light.

When he saw the Varma-Mohan proposals, Rao felt that they did not go far enough. He sought Manmohan's help. Manmohan Singh agreed that we should delicense more industries, scrap the MRTP asset barrier over business houses, and give foreign investors majority share in their Indian subsidiaries. A small group of officials from the PMO and industry (Varma, Suresh Mathur, Jairam Ramesh, and Rakesh Mohan) spent the next few days finalizing the policy. There was some opposition from finance ministry officials, but Manmohan Singh stepped in and overrode their objections. The minister of state for industries, Ranga Kumaramangalam, was not a reformer and Manmohan Singh had to lobby hard to get him in the boat. The PM took a radically liberal industrial policy to the cabinet.

Cabinet meetings in India are quiet affairs and there is little open debate. They are also secret; thus, it is difficult to get any of the actors to talk. When Rao, in his role as industries minister, presented the New Industrial Policy, he heard no complaints. Taking it as assent, he asked, as though thinking aloud, 'If we are going to open up, why not go the whole hog? Why don't we delicense cars and whole lot of other things as well?' Manmohan Singh concurred, 'In that case, let's open everything except for a small negative list related to security and the environment.' Varma, and other officials sitting at the back, could not believe their ears. In a matter of minutes, Narasimha Rao and Manmohan Singh seemed to be destroying the Licence Raj.

Suddenly, the Prime Minister turned cautious. He looked at the glum faces of the old Congress guard. They would not argue against the new ideas nor support them. They had led an unexamined life. They had never really thought about the old policies—they had just accepted them as party policies. Rao

now turned to the glummest of the faces. He asked them to get together and review the draft with Chidambaram and Manmohan Singh. In that meeting real feelings finally came out and there was plenty of dissent. Arjun Singh said that he found no continuity with past policies. Fotedar thought the policy anti-Nehru and anti-Indira. Shankaranand did not find a mention of cooperatives. Solanki complained that the government was giving up control over where industry had to locate. Although Chidambaram and Manmohan Singh defended the reform courageously, it was clear to everyone that the policy was in trouble.

When Rao heard about what had happened, he asked Chidambaram to work on the language of the policy to make it politically palatable. To show that there was continuity with the past, Chidambaram hit upon the expedient of inserting a paragraph from Nehru, another from Indira Gandhi, and a third about Rajiv Gandhi's reforms. Thus, the policy was saved. However, it came out sounding furtive and apologetic. Instead of boldly announcing a change in direction and explaining why we had to change, the draft suggested as though the new policy was a continuation of Nehru's socialism. The incident shook Rao in his resolve. He realized what he was up against in his own party; he would have to be careful. Although Manmohan Singh wanted him to announce the new industrial policy by mid-July—he did not want it linked to the budget because it might risk both—opposition from the Congress party delayed it. In the end, it was announced on the morning of 24 July. In the evening, Manmohan Singh presented the budget.

In the next morning's papers, the new industrial policy had completely upstaged the budget and all other news. No one in the government could have imagined the positive response. Over the next few days, the media and the public were euphoric. There was some criticism by the left, the vernacular press, and in the backward states of Bihar, MP, and Orissa. Narasimha Rao realized that the people were indeed ahead of the politicians in wanting reform. Only the fertilizer price increase in the budget drew opposition, and that too from the

powerful farm lobby in the Congress.

To capitalize on the euphoria, Manmohan Singh decided to move rapidly. He called a meeting of the important secretaries associated with economic policy, including the cabinet secretary, Naresh Chandra, and Varma, the PM's secretary. He spoke to them about the economic crisis and the need for change; he again talked about being worthy of IMF's trust; then he spelled out what more had to be done; and it had to be done with speed. While the Prime Minister respected differences, he said, he would not tolerate anyone putting obstacles in the way. This was the time to speak up. No one would be penalized and they would be relocated in good jobs. It was an unusual meeting. Most secretaries reacted positively. They had rarely been given such clear direction.

'People have the wrong impression,' says Montek Singh. 'The top bureaucracy is highly disciplined, and it is not obstructive when there is clarity at the top.' The meeting led to the departure of S.P. Shukla, the finance secretary. Rao then set up a steering committee of secretaries, headed by Varma, which began to meet every Thursday morning. The committee became the crucial instrument for carrying the reforms forward at an unprecedented pace over the next two years. Varma ran the committee tightly. No one was allowed to travel on Thursdays. The committee met for two hours during which the concerned secretary presented one or sometimes two reforms. They discussed the issues openly. Varma summarized and minuted the discussions and the reform proposal was taken to the cabinet for approval, and then on to Parliament. I recall my feelings of excitement in those days as the government announced a new reform almost every week.

By October, Manmohan got Chidambaram to let him have Montek Singh in the finance ministry as secretary, economic affairs. Why did Chidambaram let one of the ablest reformers go? Chidambaram, it appears, by then had the hang of things in commerce. He was on top of the policy issues and no longer needed a 'reformer economist' but an able administrator to look into the nitty-gritty of implementation. Montek was not

an implementer. Manmohan Singh wanted more fresh blood. He wanted Ashok Desai, the liberal economist.

Desai claims that he got a call from the Union Public Service Commission on 24 July to send in his CV. He was called for an interview at 9:30 and waited till 1:30 p.m. while the other candidates were interviewed. When he went in, he was asked only one question—did he have any experience in the government? Economics was not discussed, and the interview was over. Ashok Desai was rejected. He felt he had been used by a system that did not allow a finance minister to hire an economist. When Montek came into the finance ministry, he quickly negotiated a package for Ashok Desai with the Department of Personnel, got the approval of the cabinet sub-committee, and brought him in as chief consultant. Meanwhile, Deepak Nayyar was uncomfortable with some of Manmohan Singh's reform policies, and he resigned as chief economic adviser. Thus, Ashok Desai came on board in December 1991 when budget preparations were in full swing. He was ambitious and rearing to reform.

Over the next two years, the reformers had major achievements to their credit. The Central government's fiscal deficit came down from 8.4 per cent of GDP in 1990-91 to 5.7 per cent in 1992-93. Exchange reserves shot up to $20 billion from $1 billion in July 1991. Inflation came down to 6 per cent from 13 per cent by mid-1993. The reformers virtually abolished industrial licensing. They freed large industrial houses from the control of the MRTP Act, which had hindered expansion and investment. They drastically cut the realm of public sector monopoly and opened banking, airlines, electric power, petroleum, and cellular telephones, among other businesses, to the private sector. They opened the country to foreign investment, allowing 'automatic entry' in thirty-four industries and majority foreign ownership; they set up the Foreign Investment Promotion Board, which established a record of speedy clearances under A.N. Varma's leadership. Foreign investment began to double each year and it rose from $150 million to $3 billion by 1997 (and would have been much higher but for our failure to deregulate power and telecom sectors properly).

They dismantled the complex import control regime. Raw materials, components, capital goods could now enter virtually free of restrictions. Customs duties gradually came down from a peak of 200 per cent in 1991 to 40 per cent by the mid-'90s—the average duty declining to 25 per cent. The rupee went from a typical fixed overvalued exchange rate to a unified market-determined floating rate and current account convertibility in the same period. (Exim scrips, it turned out, also involved red tape and were easy to forge; in any case, they became redundant when we moved to a floating exchange rate.) Tax rates came down from 56 per cent in 1991 to 40 per cent by 1993 (and further to 30 per cent in Chidambaram's 1997 budget). They simplified the vast network of multiple excise duties, shifting to an ad valorem duty. In the financial sector, they reduced the high reserve requirements of banks (designed to give the government cheap funds) and let interest rates on government securities be determined by the market. They placed a cap on government borrowings with the Reserve Bank (allowing the RBI to sanction treasury bills at market rates when the predetermined ceiling was breached). They opened capital markets to international portfolio investors, whose investments rose to $11 billion by the end of the decade. At the same time, they allowed Indian companies to borrow abroad through global depository receipts. They introduced screen-based trading on the stock markets and dematerialized the shares.

It was quite an achievement! But after the first two years the government stopped reforming and there was much left undone. The government had not begun to privatize the public sector, which was bleeding the economy. It had not introduced labour reforms—it is still impossible to lay off a single worker even if there is no production. It is still impossible to close a private company even when it is bankrupt. It had not opened agriculture or insurance. It had not dared tackle the vast subsidies that were slowly eating away the financial health

of the country and were primarily responsible for the unacceptably high fiscal deficit. It had practically abolished the Licence Raj, but it had not done anything about 'Inspector Raj'—or the army of inspectors who make life hell for an Indian entrepreneur. Most of the inspectors were in the state governments, it is true; but the most vicious ones, by common consent, were in the Central departments of excise and customs. It had not solved the problems of India's creaking infrastructure. It had not begun the reform of education and health, the two areas of the greatest opportunity. Nine years after the golden summer of 1991, the reforms remained half-complete.

The last few years have been a frustrating time for reform-minded Indians. We mistakenly thought that we had become a 'tiger'. But we have moved at such a painfully slow pace after 1994 that I have resigned myself to the fact that India is an 'elephant' that takes two steps forward and one step backwards. This is the pace of Indian democracy. Ironically, the economy in the '90s has, in fact, grown more like a tiger at an average 6.5 per cent a year, despite a recession in industry. The biggest failing is that no one has tried to sell the reforms to the people. As such, the perception has grown that reforms help the rich and hurt the poor. Nor is there a clear, holistic vision of the future. Admittedly, there are obstacles—many of them the result of democracy. Trade unions prevent public sector restructuring; the powerful farm lobby prevents the removal of subsidies; the left wants to stop everything. However, other democracies have succeeded in tackling these reforms. Why has India failed? What are the lessons from the summer of 1991, when everything seemed to be going right? Where did the energy for the reforms come from? Why did the reforms suddenly stop after the first two years?

To find the answers, I decided to meet the main players in the drama—Narasimha Rao, Manmohan Singh, P. Chidambaram, Montek Singh, A.N. Varma, Ashok Desai, Rakesh Mohan, and Deepak Nayyar. This was not difficult because I knew them, except the former Prime Minister. All of them were remarkably open, but they suffered from an unusually poor memory. I find

it odd that none had kept a diary, considering the historic nature of their acts. But this is a common failing of Indians, and all our historic sources down the ages have been foreigners. A.N. Varma had to persist for months to get me an appointment with Rao. First, he wanted my questions in writing. Next, he wanted a preliminary meeting to size me up. Then, he replied to my questions in writing. Finally, he wanted Varma to be present at our face-to-face meetings. When we met, he was circumspect and defensive. He appeared to be a man on the run. I did not find the reformer who had changed the course of history for one-sixth of the world's people.

As we sat down, the former Prime Minister confessed that he was a Congressman and not a revolutionary. 'Congress has always stood for something. I merely continued its legacy and never wished to reverse the past.' His chief concern, he said, was poverty, but he had realized that growth was needed to eliminate it. His reforms were designed to raise the growth rate. However, growth alone was not enough. We had to attack poverty directly through employment schemes, and his government had spent more on these schemes than on any other. He was against privatization of the public sector because of his deep faith in Nehru's mixed economy. 'You don't strangulate a child to whom you have given birth,' he said. However, he sought to improve the public sector's performance by introducing competition from the private sector. He disagreed that he had stopped the reforms after two years—'India has had the right pace of reform, and a faster pace might have led to chaos.' As he talked, I felt that he was more interested in defending his policies; more significantly, he seemed to be defending the status quo.

Nevertheless, after speaking to all the players, I feel reasonably convinced that Narasimha Rao was the key factor behind the 1991–93 reforms. Although Manmohan Singh, the helmsman, got the credit, it was Rao who took the tough and aggressive decisions and provided the energy and political support. He was shrewd and knew how to deal with dissent. The manner in which he set up the review of industrial policy

to allow the older ministers to vent their feelings on it is an example. At the same time, I also believe that the reforms would not have happened without Manmohan Singh. To the extent that there was one, he created the road map. In a brilliant move, he set up a set of committees—bank reform under Narsimhan, tax reform under Chelliah, and insurance reform under Malhotra—and they provided crucial intellectual sustenance and legitimacy for reform measures in these areas. It needed Manmohan Singh to come and change the nation's mindset to growth. But Manmohan Singh is a reticent man and cautious by nature. On his own, without Rao's constant support, he would not have done it. The new trade policy would not have come about as speedily without Chidambaram. Varma was a terror as the head of the steering committee and he provided the momentum for the implementation of the reforms for two years. He knew the system well, and he played it in favour of the reforms. Varma's crucial contributions have not been understood or appreciated. In the end, all three—Manmohan Singh, Chidambaram, and Varma—derived their strength from Rao.

The economic reforms came about because there was a crisis. There was no grand design. The pressure from the IMF and the World Bank was palpable. Once the crisis went away the pressure diminished and the reforms stopped. Then the truth came out, revealing the true character of India's policy makers. Barring a few exceptions, no one in the political class—bureaucrats or politicians—was truly enthusiastic about the changes. There had been no radical change in personnel. The only exception, Ashok Desai, was brilliant but not effective. He was not a team player and he left after two years. Without a change in people, the planners of yesterday became the liberalizers of tomorrow. The Prime Minister did not have the courage to close down redundant ministries. There was no national soul-searching about the causes of our disease. The nation did not internalize the drastic need for restructuring. Hence, the policy makers could not defend themselves against the cries for protection which rose after the reforms, cleverly

dressed up as complaints about the inequities of liberalization. They had not publicly admitted that the Nehru-Indira Gandhi path had failed.

The lack of new people meant the old, vested interests which had flourished in the old *dirigiste* regime and had never admitted responsibility for their failure were still in important positions waiting to restore the status quo. Restructuring results in losers and winners, and the losers in India would have to be the interests that had benefited from the old regime. Business houses stood to lose high tariff walls and would have to compete; farmers stood to lose subsidies in water, electricity, and fertilizers; banks would lose the comfort of easy monopoly; public sector employees would lose their guaranteed jobs which insulated them from performance and inflation. The old interests kept arguing that liberalization would lead to inequitable outcomes, but little evidence emerged to support this.

Rao was a reluctant liberalizer. He was not a Deng. Neither was he a Thatcher, a Salinas, a Mahathir—or even a Menem, a Keating, a Rawlings, or a Vaclav Havel—all of whom, in their own way, were able to translate their liberal measures into a language that the voter understood. Rao failed to do that because he himself lacked deep conviction. He kept talking about 'reforms with a human face'; a reformer would have known that the reforms are the only hope for the poor. Thus, there was no political platform built up for the measures. There was no pro-reform coalition created among the people. Ideally, Rajiv Gandhi, with his vast majority in Parliament, could have done it. But he had thrown the opportunity away, and we lost six years. In some ways, Rao had a tougher job than Deng, who achieved his market revolution in a homogeneous, autocratic society. Rao had to create his within the bounds of a heterogeneous, noisy democracy. His biggest failure is that he failed to create a reform coalition within his own party, and it was his party that finally let him down. Rao's most important legacy is that the succeeding coalition governments did not change his direction but continued with the reforms, albeit in a slow and incremental manner.

There are troubling questions about Manmohan Singh. He became the icon of reforms around the world. He spoke brilliantly in international and business forums and he single-handedly created the image of an investor-friendly India. He was a hero to millions of young Indians who felt that India had changed and now had a future. Then, he stopped reforming and even stopped the rhetoric of reform. He too did not make the patient effort to educate his own party. He lost opportunities to meet the younger Congress MPs to propagate the message that he had given to foreign investors. Politics, in the end, slowed him down. He faced a brutal attack after the Harshad Mehta stock market fraud. The Joint Parliamentary Committee on the fraud trained its sights on him. Twice he threatened to resign, and each time Rao came to his rescue.

After leaving office, Manmohan Singh's language became political and cautious. He too began to talk of 'reforms with a human face'. Was he the committed reformer that the world thought he was? For thirty years he had made and defended policies that were opposed to liberalization. He had become a convert after seeing the ruin that the policies had wrought, and how far India had been left behind by the East Asian nations. But was he a true convert? If so, then it has been a poor performance for a convert ever since 1994. In a number of conversations, I have noted his ambivalence as though he needed to convince himself that the reforms would really deliver in the end, especially to the poor. This is not how visionary reformers talk and act. I have sadly concluded that he is not a reformer, although he is a man of great integrity.

Talk of the poor, I am convinced, obfuscates the debate on reforms. I believe that in any society the top 15 per cent of the people will do well and look after themselves. The bottom 15 per cent will fail and will need to be looked after by the state. The focus of the reforms must be the 70 per cent in-between, the vast majority of the people, which in successful economies becomes the middle class. Given the right circumstances, the middle class invariably pulls itself up through hard work, self-help and education in a competitive economy. This did not

happen in India because our earlier policies suppressed growth. Our middle class was barely 10 per cent of the population in 1984. After the economy started seriously growing in the '80s and accelerated after the reforms, the middle class has tripled and is now a little less than 20 per cent of the population, according to the National Council of Applied Economic Research. The reforms will succeed in making a majority of India's population middle class within a generation. It will also be easier to look after the poor if they are 15 per cent of the population rather than forty or fifty.

In the long term, the reforms will help the poor. Reforms lead to growth. With growth, there are more jobs, lower inflation, cheaper goods, more labour-intensive manufacturing, more opportunities in services and agriculture. Reforms mean fewer subsidies for rich farmers and the middle class, less bleeding from an inefficient public sector. With growth and fiscal health, there are more resources available for poverty programmes. However, the most powerful and immediate reform for the poor is more and better primary schools and primary health centres. This is their ticket to prosperity. Unfortunately, this reform has not happened—although Narasimha Rao articulated on a number of occasions his desire to raise expenditure on education to 6 per cent of GDP from 3.7 per cent.

It is not surprising that politicians have been unable to sell the reforms to the masses since all the parties have reformed through stealth. No member of the political class believes that such correctives can translate into votes. Congress politicians seem unable to rise above petty factionalism. The left or the 'third force' in Indian politics is against the reforms because it identifies with the interests of the labour aristocracy and the bureaucracy. The BJP, who were the original owners of the reform package, behave as though wealth and poverty is a secondary issue.

When the reforms first came the Congress party was just as shocked as the people of India. After all, this was the party that had given Indians the 'Licence Raj,' 'garibi hatao', the anti-market policies and had placed the public sector at the

'commanding heights'. Narasimha Rao's historic role has been to shift the nation's centre of gravity. Since then, all the parties have learned to value the efficiency of the market. There is now broad consensus for *incremental* reform across all political parties (except the extreme left and right). This explains why the reforms have not been undone. This is Narasimha Rao and Manmohan Singh's great legacy.

If there is a widespread consensus on economic reforms, why are there such frustrating delays in implementing them? If we are agreed on what is to be done, why don't we just do it? One reason is that the agenda of our political class is not economic. Second, we haven't had reformers heading our economic ministries. Third, our discourse is dysfunctional. We continue to waste our energies in debating 'the what' when we ought to focus on 'the how'. The issue is not private or public electricity, but how to create more power capacity when the customer—the State Electricity Board—is bankrupt and the politician insists on free power for farmers. How to reform is a more difficult challenge and it is not for lazy minds. It needs the full application of the mind; it needs problem-solving ability; and it needs mental toughness. Most of all, it requires acute attention to detail. It is not for drawing-room amateurs. Unfortunately, our politicians and parties are mentally lazy and amateurs when it comes to the economy.

16

A Million Reformers

Every man is a reformer until the reforms tramp on his door.

—*Edgar Howe*

We are all susceptible to easy abstractions about uneasy facts around us. We tend to simplify and try to fit into comfortable categories of the mind the dissonant things that we observe in our day-to-day lives. In our laziness, we settle for the easy rhetoric of the newspapers, and the treachery of words like 'reforms' and 'new middle class'. It is even more difficult in India, where as we change and go forward, we cannot easily give up the past. As we take a few steps forward we also take a step backwards, and the past is always with us. In this chapter I have tried to generalize about the changing India from stray street encounters over the past five years. This is always dangerous, for one tends to select facts that fit in with one's prejudices and predispositions. However, the weight of anecdotal evidence seems to point in a clear direction. My meetings with Raju, Sushila, Kum Kum, Vikas, Golam Mandal, and Madhu Verma were not exceptional. My sceptical wife has also come around. I could narrate a dozen more stories, but the weight of my evidence suggests that India has changed since

1991. It may have something to do with the reforms; it may also have to do with television. But I have found a new mindset, and I believe it will increasingly determine India's identity and future.

On the last day of 1994, I took 'early retirement' from the Procter & Gamble Company. At the time I was based in Cincinnati as vice-president and managing director, Worldwide Strategic Planning, and I was attempting to 're-invent' the global Vicks business. It was a challenging and absorbing assignment, but I was finding the transition from the excitement and tension of running a day-to-day business to corporate strategy a difficult one. After virtually running my own company for a dozen years, I had found the headquarters bureaucracy oppressive. After almost thirty years, I was tired of the corporate world. For some time I had begun to feel confined. I also wanted to do a great deal more with my life. I did not like Cincinnati. I missed India and I wanted to be closer to the great changes taking place at home, and, if possible, influence them.

Possibly, it was also the tug of the old Hindu idea of the four stages of life pulling at me from the collective unconscious. The first stage, called *brahmacharya*, is the life of a student or a celibate. The second stage, *grihasta*, literally householder, is a life of worldly pleasure, when one marries, has a family, and discharges one's responsibilities to society. All manner of sensual pleasures are sanctioned at this stage, including courtesans, I once reminded my dismayed wife. At the third stage, called *vanaprastha*, when the children are settled and debts repaid, one is expected to start detaching oneself from the rough-and-tumble of worldly affairs and begin the quest for the meaning of life. The fourth stage is called *sanyas* or renunciation, when one abandons society and its comforts to single-mindedly seek unity with the Absolute.

My wife said, 'Are you sure about what you are doing? I mean, we are earning a lot of money. Anyone else would have thought that this is the time to harvest all those years of hard work and to enjoy the fruits of power and money.' Of course, she was right. It was not easy to give up the largesse of the corporate life. We went through a struggle.

'But I want to do other things,' I protested. 'I mean, don't we have enough money? At this point of my life, I don't want to jet around the world for fifteen days in a month. I want to write. The important thing is to agree that our wants are limited. After that it's straight arithmetic.'

She understood. She reminded me, in fact, that many years ago I had told her that I wanted to quit the corporate world at fifty. We sat down and calculated how much we would need to live on for the rest of our lives, including the cost of supporting our children, who fortunately were grown up and were finishing college. Against our needs, we tried to match the likely income that we would earn from our savings and investments. It turned out that we might just be able to make it.

Having decided to quit, we wrote to a number of friends in India. My own company was extremely gracious. It suggested a number of alternative jobs where I might be happier, but when John Pepper, the CEO, realized that my mind was made up, he offered me early retirement with its attendant benefits. The *Times of India* offered to let me write a regular column. Since I had been writing for it off and on for many years, this was not a surprise, and I immediately accepted. Manmohan Singh, the finance minister, wrote back to say, 'Come back. Can't promise you anything, but we shall try.' Several Indian groups invited me to run their companies, but I refused. My tax consultant at Deloitte advised me to return my green card; otherwise, I would have to pay heavy and unnecessary taxes to the US government on my non-US income. He added that I must remember to obtain Form I-407 when I returned my green card.

A few days later I went to the immigration office in Cincinnati. As I was returning my green card, the immigration officer asked, 'Sir, what's the problem? Don't you like our country?' I told him I liked his country, but not its tax laws. When I asked him for Form 407, he looked puzzled. 'Never seen it,' he said. He called Washington, and they faxed him the

form, which was titled 'Wilful Abandonment of Lawful Permanent Residence Status'.

'Hold your horses, young man! I gotta ask you some questions,' he said. The questions had to do with making sure that I was leaving voluntarily—that I was not being forced out of the country for any reason. I left the office, impressed with the US government's concern for human rights.

On returning to India we decided to settle in Delhi rather than Bombay. It made sense for me to settle in Delhi. In my new career as a writer, I needed to be near libraries, editors, intellectuals, and think-tanks. Delhi had plenty of these, unlike Bombay, which was purely a commercial city. If one is not making business deals, I felt, there was no fun in living in Bombay. However, my wife hated Delhi. She said it had no soul. Its street life was aggressive.

They say that the measure of a civilization is how it treats its women. Since coming to Delhi I have met many women who wistfully long for Bombay. My wife explains that Bombay gives women dignity. If Bombay respects women, Delhi looks on them as sex objects. In Bombay, she can take a taxi at midnight; in Delhi, a girl cannot walk freely on the street in the evening. It seems that it takes more than education to bring civilization.

Bombay has this civilizing quality, I think, because of its origins as a city of commerce. Montesquieu wrote in his *Spirit of the Laws* that 'it is almost a general rule that wherever manners are gentle, there is commerce; and wherever there is commerce, manners are gentle'. He felt that commerce diverted people away from brutal wars and bloodshed. A few years later, Samuel Richard added that 'commerce makes him who was so proud and haughty, suddenly turn supple, bending and serviceable. Through commerce, man learns to deliberate, to be honest, to acquire manners, to be prudent and reserved in talk and action.' Commerce, they say, encourages the bourgeois virtues of thrift, hard work, self-reliance, and self-discipline. My experience of businessmen—Marwaris, Jains, and Gujarati banias—is that they possess these qualities in abundance, particularly the virtue of restraint.

The first rule of business is that unless both the buyer and seller are happy the business transaction is not stable. If the buyer drives too hard a bargain or if the seller's goods are less than promised, the transaction fails. Thus, business people learn interdependence. Both the buyer and the seller have to be satisfied, and this promotes a positive sum game. People in business also understand the importance of 'growth'. They learn to believe that there is enough to go around, and this creates an 'abundance mentality'.

The origins of Delhi are feudal and monarchical. Because of the hierarchical nature of bureaucratic society, Delhi regards life as a zero-sum game. The pyramid gets smaller as you move up. There can be only one Prime Minister. Not everyone can be secretary. If you have to win, someone has to lose. Instead of becoming interdependent as buyers and sellers, you learn to put people down. Transactions in Delhi depend on influence and patronage, and it matters less what you know than whom you know. Person for person, Delhi people are better fed, better clothed, and better off. It is a middle-class city with a higher per capita income. However, it is not a very pleasant city. The Delhi resident wears his bad manners on his shirtsleeves. Fortunately, Delhi has changed a great deal in the last decade; it has increasingly become a commercial city. New businesses have come in. Multinational companies have established their headquarters here. A new middle class has emerged. This is the best hope for civilizing the manners of Delhi. My wife despairs that it will not happen in her lifetime.

Soon after we returned to India in 1995 and people discovered that I had nothing better to do, they began to invite me to join their board of directors. At first, I was flattered by this attention, and I began to accept the invitations indiscriminately. Before I realized it, I was a member of fourteen boards and I was travelling twelve days in a month, hopping from one board meeting to the next. After three months of this, I realized that this was a terrible way to live. Mind you, board governance is of vital importance, but in the way boards are

structured there is little hope of penetrating a company as a non-executive board member. This means that there is little satisfaction in being a board member.

At the same time, I did want to stay in touch with developments in the business world. I also felt I could contribute something to the success of some of the companies. So, one afternoon I picked up the phone and I spoke to fourteen board chairmen and I said, 'Look, I am deeply honoured to be on your board. But I have decided that I must restrict myself to a few companies, and these I can get to know well and contribute to their success. If you think I can help your company, give me a challenging assignment. I shall give you one day a month and charge you a very high fee to ensure that both you and I take the assignment seriously. In this way, I shall be able to penetrate your business and be a more useful board member.'

To my surprise, six companies agreed to appoint me consultant. I stepped down from the other boards. I checked from a regulatory point if a consultant could also be a board member. The answer was that if the company's lawyer or chartered accountant could be a board member, so could a consultant. My consultancy took off and soon I was having a lot of fun working six days a month, helping six companies to become competitive. I began to help one company build a global brand; another to regain market share in the domestic market; a third company to innovate and upgrade its product line; a fourth company to expand the market since it already had the leadership position; a fifth to transition from family to a professionally run business; and a sixth to get its managers to work cohesively against pre-agreed objectives. I had a ringside view of Indian business.

My consultancy assignments took me to distant parts of the country. Occasionally I was able to get away from the big cities, where I would meet a different type of businessman. One such trip took me to Pondicherry. We set out in the morning from Madras, and after an hour stopped in a village cafe, where we were served the most wonderful south Indian coffee by fourteen-year-old Raju. As he hustled between four tables in

khaki half pants and a bush shirt, he told us about his life in Maraimalainegar village. His father was a petty hole-in-the-wall shopkeeper who made a living selling cigarettes, bidis, paan, newspapers, plantain, shampoo sachets, candy, tea, and cooking oil. After bringing us vada sambar, Raju explained that this was his 'summer job'. He made 400 rupees a month but it was just enough to pay for computer classes. 'Our village, of course, is useless. It doesn't offer computer lessons. So, I bicycle three kilometres to the next village where I learn computers two evenings a week. Our school does have two computers, but there is always a rush, and the older boys push me out. That's why I am taking summer classes. Next year I am hoping for a "summer job" in a computer firm in Madras.'

'What will you do when you grow up?' I asked.

'I am going to run a computer company.'

'Where did you get this obsession with computers?' I asked.

'I saw it on TV where this man, Bilgay, has a software company in America, and he is the richest man in the world.' I smiled at his pronunciation of Bill Gates's name, but I was impressed at the single-mindedness of his purpose. He believed that computers were the future. He was fascinated by computer-generated graphics, which he watched on a black and white TV set which his family had acquired for Rs 2800 on instalments. He wanted to be the first among his school friends to own a personal computer. 'That will create a sensation, don't you think?' he smiled mischievously.

A few weeks later I read that Ford had decided to invest $500 million in Maraimalainegar village, Tamil Nadu, to produce Escort in collaboration with the Mahindras. Raju won't call his village 'useless' for very long, I thought. Raju became my defining image as I travelled around India over the next five years. I encountered the image frequently—in the hopes of the young, in the way people talked, in the way they stood at street corners, in the way mothers thought about their daughters and their sons. Raju defined a new way of looking at the world. India was changing.

Returning from Pondicherry the following day, I came upon a stream of young girls, brightly dressed in sarees of different colours, walking in a single file along the two-lane highway. There were hundreds. My first reaction was that they must be going to a temple. It must be a festival day. What else could be happening, early in the morning, in the middle of nowhere? We stopped the car and asked one of the girls what was going on.

'Nothing,' she giggled. 'We are walking to work at the leather factory.' She made leather shoes. I asked her about her customers.

'Florsheim, Hogarth, Marks and Spencer.' She said the names in a clear and deliberate manner. She was very proud of her customers. 'Yes, we make very good shoes,' she added.

She told us that her name was Sushila. She was twenty years old, and she earned 1400 rupees a month. She had been working in the factory since it started three years ago. Ever since then things had changed rapidly in her village, Guduvencheri. All the girls had jobs now. They could make their own dowries, and they got respect. Suddenly, she dropped her bag and she became flustered. A small bottle of Oil of Olay spilled out. Fortunately, it didn't break and she was relieved.

'Isn't it expensive?' I asked. It used to be very expensive, she said, but the price had come down. Her shopkeeper had told her that excise duties had come down on all cosmetics. Looking at her watch, she said abruptly, 'I must go.' She ran off to join the colourful line to the factory. I had liked the way she had confidently rattled off, 'Florsheim, Hogarth.' She had said the names as though she really cared for her customers. She clearly knew the secret of success in the global economy.

Meeting Sushila brought back uncomfortable memories. On the crowded road back to Madras I recalled my fruitless visits to Delhi's North Block. I had paced the corridors in the 1980s, trying to persuade anyone who would listen in the finance ministry that a 120 per cent excise duty on toiletries was counter-productive. I had felt frustrated that we could not introduce our shampoos—Pantene, Pert Plus, Head & Shoulders

and Vidal Sassoon—because the tax structure more than doubled their price. All the Asian subsidiaries of P&G had built successful haircare businesses, except India. For the same reason, our Oil of Olay had also not grown. P&G China, in contrast, had built the second largest Olay business in the world with half our consumer price.

My lowest point had come in a meeting with the finance minister. I had argued that lowering excise duty would lower consumer prices of shampoos, skin creams, and other toiletries, which in turn would raise their demand. The tax revenues would thus rise, although the tax rate might be lower. Indian women did not need lipsticks and face creams, felt the minister. I replied that all women wanted to look pretty.

'A face cream won't do anything for an ugly face. These are luxuries of the rich,' he said. I protested that even a village girl used a paste of haldi so that she could look pretty.

'No, it's best to leave a face to nature,' he said impatiently.

'Sir,' I pleaded, 'how can you decide what she wants? After all, it is her hard-earned money.'

'Yes, and I don't want her wasting it. Let her buy food.' With that, he imperiously motioned me out of his office.

Sushila had opened a wound that I thought had healed. It had happened ten years ago, but I could still get angry at the stupidity of the command economy and the arrogance of its commanders. As we hit the traffic on Mount Road, I calmed down. Raju and Sushila, I realized, were already a part of the global economy—Raju in his dreams of Bill Gates and Sushila in the way she thought about her customers. Manmohan Singh had not only halved the excise duty on toiletries, he had let loose a bigger revolution. Liberalization in trade, besides information technology, tax reform, and free access to airwaves were beginning to change Sushila's and Raju's minds.

On the flight back to Delhi, I met a friend, Nalini Singh, and I told her about Raju and Sushila. She told me in turn about a young girl in Connaught Place from whom she brought flowers for her hair. Recently, she said, she had pulled over at the traffic light near Nirula's. As she was selecting a jasmine

band, she had remarked to the girl that her *gajras* were remarkably cool and fresh. Their perfume had filled the evening air.

The girl pointed to a tiny refrigerator, which was partially visible in the corner grocery store. This was her secret. 'Do you really keep your flowers in the fridge!' Nalini exclaimed. Not in those words, but the girl explained that this is how she derived competitive advantage over the girl who stood at the Janpath traffic corner.

A few months later, my friend, S.K. Singh, invited me to his brother's farm in Uttar Pradesh. 'Bartoli is a sleepy village, feudal to the core. There are mostly low-caste families, some Muslims and a sprinkling of Rajputs. They only talk of corruption, *rishwat* and *sifarish*.' So said SK's brother, as we turned off the Grand Trunk Road between Bulandshahr and Khurja, 100 kilometres east of Delhi.

I looked around the village and I saw another story. Fields were laden with sugar cane, tractors were ploughing the land; tractor-trailers had created a traffic jam on the narrow bridge connecting the village to the main road; diesel pump sets were pumping out gallons of water; well-fed, uniformed schoolchildren walked home from a new 'Montessori' school that was only six months old but had already enrolled eighty students.

'Everyone has become money-minded these days,' lamented the master of the old government school because the children were abandoning his school. 'Montessori—that's just a gimmick to lure my students away. They don't know the meaning of the word. They are charging Rs 35 a month, and for eighty children, that works out to 2800 rupees. The poorest chamars are throwing away good money when it costs only one rupee in my government school.'

'Why are they leaving your school?' I asked.

'Because they watch TV; they want to learn English; they want to get rich.'

'No, you rascal,' interjected my host, 'Because you never show up in class. You're too busy looking after your shop.' The schoolmaster wanted to know when the government planned to start the new 'midday meals' scheme. He had read in the newspaper that it was coming soon. It was hot inside my host's simple village home, and we pulled out our charpai. My host explained to me that the only reason the schoolmaster expressed concern about losing students was the government's new 'free lunch' programme for children. The master expected to get a cut from the scheme, and the dwindling student population would affect his earning potential.

Fateh Singh, a neighbour, came to greet us. He was a young fiery-eyed Dalit whose diffident manner hid an alert mind. He would not sit on the same charpai because my host was Rajput. Fateh Singh owned four acres and ploughed another six on contract. They had been 'unclean' leather workers, but now they plowed the land with five tractors, which they rented to each other. 'The problem is labour, sir. I can't get anyone to work the land.' Krishan Pal Singh, a Rajput, who owned thirty acres between the two villages of Bartoli and Mamman Khurdua, joined the refrain. 'Our biggest problem is getting someone to work in the fields. I pay Rs 40 a day plus three meals and free fodder for the cattle—and I still can't get anyone.'

'It isn't easy working the land,' said Fateh Singh. 'We get power only at nights. So someone needs to stay awake to water the fields. In May and June it gets so hot that you are reminded of your grandmother.' This drew a laugh, but it explained why the young were leaving the village.

'What are you complaining about?' said my host provocatively to Fateh Singh. 'Mayawati is now the chief minister. You can have anything you want.' Fateh Singh was hurt. He did not like to be reminded of his caste, even though the new chief minister was a Dalit too. 'I am a liberal, and above these caste distinctions,' said my host turning to me, 'but I cannot tolerate the sight of a low-caste girl sitting beside a Brahmin boy. I saw it with my own eyes on a bus in Delhi the other day. Mind you, the boy was the son of a Supreme Court judge.'

'What is wrong with them sitting on the bus together?' I asked artlessly.

'What's wrong—she is unclean!' said my Rajput host, rising imperiously from the charpai and assuming the dignity of a retired transport commissioner. 'They used to carry muck on their heads.'

'That was probably two generations ago,' I said, impatience showing in my voice. A smart, well-dressed young man had now joined the crowd. His name was Vikas, and he was fairer than his uncle, Fateh Singh. He had a fine jawline and thick, jet-black hair, nicely combed down. He was the son of a bus conductor in the state-run UP Roadways. He was in his first year in college, and he didn't want to be a farmer. 'I thought I might open a business in Khurja.' Khurja was famous for its pottery, but Vikas had other ideas.

'Well, my father has this pension coming . . . I thought I might start a business with that, making steel trunks. We get trained, skilled Muslim workmen in Khurja,' said Vikas, 'and I have met buyers in the wholesale bazaar in Delhi.'

'But you don't know how to do business!' said my host. 'Do you know how to bribe the linesmen of the electricity board?' The linesmen in UP had built the best homes for themselves, all in marble.

'This boy will be our death, sir!' Fateh Singh exclaimed. 'With our connections in Lucknow, we have fixed him a solid bus conductor's job for only Rs 50,000 in the roadways. But we cannot fix his head. He is determined on ruining his life and his father's hard-earned pension. Please knock these steel trunks out of his head.'

I returned to Delhi and told my wife about Vikas. I said that even the villages in UP were changing. She nodded sceptically. After a few months, my consultancy with a garment company took me on a field trip to Calcutta, where I visited the prosperous Sumangal Clothing Store on Lindsay Street. There I met Golam Mondal, a mustachioed salesman in his forties from Babnam village in Hooghly district. Mondal had spread out his chikon embroidery on two counters and he was trying to sell it wholesale to Sumangal.

'It is exquisite!' I exclaimed at a blouse. The storeowner

reminded me not to get too enthusiastic since he was trying to beat down the price. Mondal explained that his cousin had spent three months to complete it along with a matching sari. Both were for Rs 5000. I asked how much his cousin earned doing this work. He looked around to ensure that the storeowner was not within hearing.

'Are you a customer, sir?'

'No,' I said.

'Then I can tell you—she earns plenty, sir. Our people prefer to work on piece rate. Simple chikon workers can earn Rs 300 for shadow work or reverse stitching. For kantha, our traditional Bengali needlework, they earn as much as Rs 1000 per piece. We are a village of 200 families, and the average family earns Rs 8000 per month. The women do the embroidery and the men go out and sell the work. I concentrate on the south, and my order book is bursting this year. The Punjab National Bank has already upgraded our Babnam branch. The manager says that deposits from the chikon workers are more than Rs 1.50 crore.'

'Does the government help?' I asked.

'Help, sir? We don't want the government near our village. I am ashamed to take you to our village, sir. In the rains our road gets washed away. The trucks carrying raw materials get stuck in the slush. We get half the power that we need. I don't know how I am going to fulfil this order book, with the power situation being what it is.'

'What accounts for your order book?'

'I don't know. Ten years ago, we were as poor as mice. Today nursing homes, schools, hotels—they all want our chikon work. Earlier, we depended on sari and handloom shops . . .' He stopped mid-sentence, seeing the storeowner approach.

'Yes, you ungrateful wretch. I know, you are a big man now.'

In the evening, I went to meet some old friends in Calcutta. They complained that there was no investment and jobs in Calcutta. I told them about Mondal. But they couldn't relate to his life. I felt sorry for middle-class Bengali mothers whose

educated sons were either unemployed or had left for other parts of India to look for a job. 'Despite the hype, no sensible industrialist will invest in a communist state,' said Bandopadhyaya. 'Ironical, isn't it, we finally have good infrastructure—power, telecom, the metro—but no jobs.' It was different in the countryside, they said. People were more positive. Many had benefited from land reforms. 'The green revolution has finally come to Bengal,' said Bandopadhyaya.

The following month I happened to be in the pink city of Jaipur in the company of an American visitor. While he went to see the tourist sights, I decided to visit Madhu Verma, whom I had first met in Bombay but had not seen for a dozen years. Her husband was the manager of a public sector bank. They had lived in Jaipur for the past fifteen years. On the way to their home, I was caught in a traffic jam. I fretted that I was late.

Jaipur seemed to have shed its sleepy, apologetic, small-town air. I felt a new aggressiveness on the streets. People who earlier walked were on bicycles; those who rode bicycles were now on scooters; those on scooters were now riding shining new Maruti cars and causing this traffic jam. Jaipur was also filthier. Fifteen years ago, the same street had been a clean, wide boulevard. Today, garbage was piled on both sides of the road and vied belligerently with the fumes of the traffic. It was hot in the taxi, and the exhaust and the din of the traffic was relentless. The afternoon sun was burning hot and my shirt began to stick to my skin.

Finally, the traffic came unstuck, and we turned into a newly built colony of Jaipur's upwardly mobile middle class. We passed garishly painted houses, in bright pink and green, with satellite dishes on the roof, cars parked outside and open garbage mounds at the back. Soon I arrived at Madhu Verma's house. I guessed that it must be hers—it was quiet, surrounded by bougainvillaea flowers, a nicely cut lawn and lots of greenery. Inside it was cool and I was surrounded by old-world charm.

'Jaipur has changed,' Madhu said in a pleasant way—soothing like a dentist promising not to injure. 'It is such a

quiet change that no one notices it. Much of it I don't like, but there are good things too.' She served me tea and asked me about my parents. I asked what had changed.

She looked out at the kachnar tree outside the window as though to help her think. 'I have four children, and all of them are working. The two younger ones have got jobs on their own without any connections. And my older girl has recently changed her job for a better one. My fourth has started a business. He is not doing too well right now because there's too much competition in his line. He doesn't want to work for anyone.'

'What is changed?' I asked again.

'That's the change. My kids have jobs, careers. There's excitement in the house. They bring news of the world. Do you think ten years ago they'd have got settled on their own? There would have been panic. I would have been phoning the whole world to find out if someone knew someone in the UPSC. Mind you, they are not alone. Their friends from college have also landed good jobs or are thinking about starting businesses.'

'What do you think is responsible for this?'

'I don't know. I am no expert. Maybe it's the economic reforms. I just know that my kids in Jaipur have got jobs, and my cousin's kids in the UK haven't. And they have been looking for two years.'

Even the judiciary and the trade unions have been infected by the changing attitudes. 'Justice Sawant of the Bombay High Court now delivers five out of ten judgements in favour of business; earlier, ten out of ten judgements were in labour's favour,' Zia Mody, a young, high-powered lawyer, tells me in Bombay. T.A. Francis, the general secretary of the communist trade union, AITUC, confesses that unions had put off the middle class because 'we blindly supported the public sector (even when) it had failed to provide efficient services'. Labour attitudes have mellowed. There are fewer strikes and labour agreements now routinely include productivity clauses. Francis is a new kind of labour leader. He sits before a computer in his Delhi office, wears a fashionable striped shirt, tinted aviator

spectacles, smart loafers and smokes Wills. He studied at the Delhi School of Economics and became a communist during the student movement in 1972-73. Francis says that closing a public sector company should not be viewed from the point of view of job losses alone. If it releases resources and makes fresh investments possible elsewhere, then it makes sense.

The debate in the country seems to be shifting from politics to economics. The circulation of the leading business daily, the *Economic Times*, was less than 100,000 copies in 1989. In March 1994, it touched 500,000 copies, making it 60 per cent larger than the UK's *Financial Times*. It subsequently came down to 380,000 with the decline in the stock market. Similarly, the readership of the three leading business magazines has doubled over the past five years. During the summer of 1995, the entire country was mesmerized by Enron's power plant in Maharashtra. In Parliament, in the newspapers, on glamorous TV chat shows, Indians discussed the intricacies of Enron's power purchase agreement with the same avidness as they discussed Tendulkar's batting average. Students in Maharashtrian colleges mentioned Enron's plant load factor with casual sophistication, as though they were talking about the latest affair of their favourite hero on the Bombay screen.

Even the politicians have changed. I visited a former cabinet minister at his home in Delhi. He lived in an old imperial bungalow with neo-classical columns on one of the wide avenues in Lutyens' Delhi, surrounded by a magnificent lawn and guards at the gate. There were no suppliants, however. Then I remembered that the great man was no longer in power. In the old days, there were always dozens of people waiting outside his door. The dignity of a great man was judged in those days of the Licence Raj by the number of people waiting to see him.

The great man walked in punctually at five, fresh after a bath, in a starched kurta. Five minutes later an impeccably dressed attendant brought us tea.

'You don't come and visit us any more,' he said, with a gentle smile which covered the mild rebuke. 'But then no one

comes to visit politicians these days.'

I looked around the comfortably appointed room. I realized that this house would have to be soon given up. If he still had clout, he would find ways to keep it. But it must rankle to be illegally occupying a government house. He must have caught the drift of my thought. 'Yes, everything in this house belongs to the government: every cup, every saucer, this tea tray, the attendant and even his uniform.' His helpless look seemed to say, 'How can a man give up all this and become a nothing?'

He offered me a cup of tea and said, 'I am glad you have offered to help the government with the reforms. We need to globalize our economy and to make our businesses more competitive.' He talked for half an hour in this way, saying all the right things. As he warmed up, I could see the politician in action. It was a well-rehearsed performance. I was amused to see an amazing turnaround by this great votary of socialism. Five years ago, he had lectured to me in the same way, but he had said exactly the opposite.

As I was leaving, he lowered his voice. 'Yes, by all means, go and help the government in its liberalization programme, but remember us as well. Don't forget the old friendships. It is sad that businessmen don't come to see us now.' He looked to me for a response, and then he said to no one in particular, 'Can't we have reforms and still keep the old contacts flowing?'

The veranda with the round old pillars was dulled by the evening sunlight. The cane chairs, which had earlier looked restful, suddenly seemed ugly and heavy in the bleached light. The rotted chick blinds added to the dull, official feeling of the house. For a few minutes I had almost believed that the great man had genuinely changed and that he spoke sincerely for the reforms, so good had been his performance. In the end, the dirty truth had come out, staining an otherwise fine evening.

I wondered if corruption had come down or had it increased since the reforms, as many said.

'Corruption may have grown in the areas where the reforms are half complete, such as power, telecom, aviation, environment,' says Swaminathan Aiyar, 'but there is also more

talk of corruption because of an activist judiciary and a sensationalist press. It has certainly not increased because of the reforms.'

Of this I am clear—the minds of the people have begun to change. It has happened more in the middle class; it is more apparent in the young; it is more obvious in the business world. People have begun to look at the world differently. There is a quiet confidence in the air. People genuinely believe that their children will be better off than they were. Young managers and entrepreneurs exhibit a 'can-do' attitude. Nor is it only on account of the reforms. The middle class is growing rapidly. Television is freeing the mind. However, the single biggest factor in opening the floodgates seems to be the liberalization of 1991. Becoming rich has also become acceptable. Whereas a government job was the route to success in the previous generation, now the thing to do is to go into business. Money has replaced power and privilege. Older, traditional people are quick to condemn the changing attitudes. They call it 'greed'. They are upset and see it as a threat to Indian culture. But the younger people defend themselves, saying that it is not greed but a desire for achievement. They want to 'get things done', 'to produce results', and business offers to them a stage to do so.

Business people are the most prophetic when speaking of the reforms. 'Narasimha Rao came out of Jurassic Park in 1991 to become the biggest revolutionary in India since Gautama Buddha,' says Aveek Sarkar, the Calcutta publisher, with a mischievous smile. 'But he doesn't realize it!' Anil Ambani of Reliance says, 'It is not economic reform, it is a revolution!' Others have also expressed similar sentiments. Sharad Joshi, the leader of half a million farmers in Maharashtra, told me, 'It is our second independence. In 1947 we only got our political independence; we struggled for another forty-four years before we finally won our economic independence in 1991.' Arun Shourie, the author and commentator, says, 'Today we have the same sense of possibilities that existed in the early '50s.'

'How else do you explain the sight of eighty-two-year-old

Jyoti Basu, the communist lord of Bengal, standing before an audience of Wall Street investors trying to drum up investment for his state?' says Aveek Sarkar. 'How did you do it?' exclaims a German businessman on an Indian Airlines flight to Calcutta. 'It is going to take us a whole generation to assimilate East and West Germany, yet in a few short years, you have succeeded in changing attitudes.'

India is no longer the stable land of certainties. There is new energy, a new sense of freedom. Listening to Golam Mandal of Babnam village, I realized that the state was no longer the protector 'mother-father' to many people. Suspicion of the state was a part of the new mindset. Instead of viewing the end of old reverences as a cynical condemnation of a corrupt government, I see it as the sign of a new maturity in our democratic journey. Had not the liberal philosophers always expressed a suspicion of state power? The American founding fathers had gone to a great deal of trouble to create a system of checks and balances on the different agencies of the state. Whether the change is due to an activist judiciary, or a powerful election commissioner, or the impact of television, or the Mandal social revolution, besides liberalization, it is hard to say. When the former finance minister, Manmohan Singh, announced the economic reforms in July 1991, I thought it was about technical matters like 'structural adjustment', 'tariff levels', 'industrial de-licensing'. I now realize that the reforms are creating a revolution in ideas and changing the attitudes of the people. A revolution in ideas does not of course mean that jobs are immediately sprouting or that poverty is disappearing. Heart-breaking poverty is still the pervasive face of India. It is a terrible prison in which far too many Indians live in fearful anxiety. However, one day, and sooner than we perhaps expect, the mental revolution should lead to a physical one.

17

New Money

> The secret of business success is not who you know. It's what you know.
>
> —*The Wall Street Journal* advertisement

I read somewhere that China boasts a million millionaires and eighteen million entrepreneurs. This was twenty years after its reforms. I do not know how many we have in India, and our reforms are only nine years old, but we have always had our entrepreneurs. Despite its best efforts, our government could not wipe out the spirit of enterprise in forty years. A walk to the bazaar is all one needs to see that the spirit of enterprise has always been well and alive. The industrialists of the Licence Raj may have got into bad habits—born of protection—but their behaviour even then was entrepreneurial in the way they won and lost market share in bureaucrats' offices in Udyog Bhavan. They merely played by the rules of that game. The entrepreneurs of the 1990s, however, are creatures of a competitive economy. Without the shackles of licensing, FERA, MRTP, closed borders and high taxes, the country is filled with new confidence and I expect there will soon be a million millionaires in India. The young are no longer embarrassed

about wanting to be rich.

My management consultancy provided me with a box seat to observe the changing business scene. I met business people of all kinds. I empathized with their problems, marvelled at the opportunities before them, and discovered to my delight that I also began to grow again under the stimulus of new business problems. I jumped at every opportunity to talk to business people—at airports, in trains, at seminars and conferences. It was not difficult because Indian managers are not shy to talk about their business. By far the most interesting people I met were in the new 'knowledge' industries. Not since the industrial revolution has any group brought so many improvements and added so much value to their customers as information technology professionals. And the best is still to come. In the new century, these managers and their companies will shape the lives of billions from the boardrooms of New York to the bazaars of Kathmandu. It is here that the 'passion and the excellence of our times', in the words of Oliver Wendell Holmes, is being enacted.

The new spirit is reflected in the vast number of rags-to-riches stories. This is not surprising. It has happened in many countries in periods of economic expansion. Money is replacing power and privilege. Many people think that business is about greed. It is, to an extent. But it also about the pursuit of excellence. It is about young people with ideas reaching out to do the impossible, and creating jobs and wealth for society. Most of us are not tuned. We are still listening to the background noise of democracy when we could be listening to the music of entrepreneurship.

Two south Indian Brahmins sit peacefully beside me waiting to get on the Jet Airways flight from Madras to Bangalore. They are old cronies and they sit side by side, each with a steel tiffin carrier filled with idlis. Their foreheads are smeared with horizontal stripes of paste, their brown faces creased with gossip and laughter. Their jocose voices conjure up coconut groves and the sweet sounds of the veena and a Carnatic musical heaven. Both wear starched white dhotis and chappals,

which seem just about right on the polished floor of the new Madras airport. Their voices are light and accented in the manner of their caste, and they look like a pair of decent characters from an R.K. Narayan novel. They are a comfortable sight as they create around themselves a rich aura of incense, temple gods, and Chola bronzes. Why is it, I ask myself, that middle-aged men in such disguise should look both kindly and wise?

The two cronies, it turns out, have started a software company. I have come to Madras to spend a day consulting with Vellayan's T.I. Cycles, trying to bring discontinuity into the mature Indian bicycle market. Sitting at the airport and observing the Brahmins, I feel confused. But isn't that a condition in which we exist in contemporary history, as distinct from the way we try to tidy it up afterwards? Can one expect this city to have peculiar virtues—springing from its old, spiritual way of life—that might help it survive the present pace of industrialization? If my journey to the airport is to be believed, the automobile will soon choke Madras. The rapid growth of the past few years seems to envelop it in a grasping nastiness, like a blight in which human beings are ground down to insects. The Brahmins say that the maddening traffic, the noise, and the pace does not bother them. On the contrary, it is a nice change from their old, suburban temple life.

My flight is soon called. I sit next to a young, six-foot American on the plane. He is a customer of one of Bangalore's software companies. He says that the rich countries were supposed to specialize in the knowledge industries of tomorrow and the poor countries in low-wage, low-skilled industries of yesterday. 'This was the theory, but somebody forgot to tell Bangalore.' There are at least five cities in India, he thinks, which are ready to leap into the information age.

I am going to Bangalore to meet the young team of United Breweries to help them globalize Kingfisher beer, among other things. I have also been invited to visit Infosys, Bangalore's revered software company, the next day. Infosys is in a technology park on the Hosur road but cows are grazing

outside the offices. Once inside the campus-like office, I feel transported to Silicon Valley in California. Software professionals are hunched over screens in an atmosphere of quiet discussion, and training rooms are full of bright young engineers. Of the 3000 professionals working in Infosys, two to three hundred are in classes at any moment, updating their technical knowledge or learning about quality. In a spacious classroom filled with the latest equipment, twenty alert minds are in avid discussion on customer service. Infosys's secret is its ability to hire the best talent and keep them motivated in a 'learning environment'. It is able to do this because of an outstanding stock option plan, which is open to every professional who has worked for three years. Thus, many of its junior and middle managers are rich by Indian standards and have visible assets to show for their hard work. Infosys spends 5 per cent of its turnover on education, research, and on developing its people.

Started by six computer engineers with a capital of Rs 10,000, Infosys was worth Rs 66,000 crore in February 2000. It develops software for the best global companies who have kept its sales growing at an average of 40 per cent a year, from $18 million to $120 million in the past five years. It also designs, erects, and maintains Internet infrastructure for leveraging the power of e-commerce. It sells Bancs 2000, a software system, to banks, and recently sold a warehouse management system to Reebok, the American shoe company. With the steady appreciation of its stock, it has more than a hundred managers individually worth a million in dollar terms, and more than 400 managers worth more than Rs 1 crore.

'The secret of our success is teamwork,' says suave Nandan Nilekani, the managing director. It is partly luck, partly chemistry, partly Narayana Murthy, who is the catalyst and the glue. 'Infosys makes you subordinate your ego and you invariably put the job above your interest.' The CEO is smallish, bespectacled, soft-featured Narayana Murthy, who is one of its six founders. 'I got into IIT Kharagpur in 1962, but I didn't go because my father couldn't afford the Rs 150 per month for the hostel.' His father was a government servant—an assistant

education officer in the old Mysore government—earning Rs 500 per month, and with that he supported eight children. Murthy is in his early fifties and he speaks without shyness and to the point. He is a billionaire in dollars now and has cultivated the CEO manner, which means that he is conscious of his image.

So, how did he go from rags to riches? 'Since I couldn't go to IIT, I had to settle for the local engineering college in Mysore. From there, I went to IIM Ahmedabad. After that, I hopped through several early jobs, including one with a defence contractor in France, until I landed at Patni Computer Systems in Bombay, where I worked for five years. They were good people—a business family from Agra. Being professionals themselves, they had succeeded in collecting some real talent. That is where six of us had the idea of starting our own software company. That dream has come true.'

As a student, Murthy was a committed Marxist. Disillusionment and conversion came in 1974, when he was hitchhiking from Paris to Bangalore. He boarded the Sofia Express one night at Nishe, a small railway station near the border of Bulgaria and Yugoslavia. On board, he met an East German and an Austrian girl with whom he struck up a conversation in French. At the next station, the police stormed in, dragged him out of the train, and informed him that the East German had accused him of exchanging sensitive state secrets with the Austrian girl. They bundled him into jail, without food or water. 'That was the turning point,' he muses. 'I thought that if this is communism, it isn't for me.'

Infosys is a creature of the economic reforms. So are the other 325 software companies of Bangalore. Most of their customers are overseas. Earlier Indian software engineers had to fly back and forth. With liberalization and the zeal of a visionary civil servant, N. Vittal, the companies got their own satellite link, which lets them do most of their work in Bangalore. Now, as their customers leave their offices in America, they e-mail their software needs and problems to Bangalore. While they sleep, Indian engineers solve their problems, and send

them back the solutions by the close of the day. This means that Americans have the answers the next morning as they bring their coffee mugs to their desks and log on.

Three-fourths of the software companies in Bangalore are Indian, but they account for only one-third of the investment. Foreign companies like IBM, Texas Instruments, Motorola, Group Bull, and Sun Microsystems are also developing software in Bangalore. It makes sense because an Indian engineer costs only 20 per cent of an American. The difference between Bangalore and many East Asian cities is that it has prospered through cheap brains rather than cheap hands. Although India produces two million graduates, it trains only 25,000 computer science engineers. With demand growing so rapidly, wages have been climbing 20 per cent a year and companies routinely lose a quarter of their workforce every year. The pressure is accelerated by the foreign companies, who transfer their best Indian engineers to the US or to their other foreign operations. Many Indians are also lured to Silicon Valley, where one-third of the high-tech companies are today run by Chinese and Indian engineers, according to London's *Financial Times*. Hence, Narayana Murthy's stock option plan has become the model for all of India's entrepreneurial ventures in order to retain talent.

Because traditional universities and educational institutions cannot cope with the exploding demand, computer education has spilled into the market place. Two young entrepreneurs from IIT Delhi, Vijay Thadani and Rajendra Pawar, saw in the early 1980s what the government did not. They realized that the world was changing and no one would be employable without computer skills. India had a huge and growing appetite for IT professionals and our schools and colleges were only creating an army of unemployables. They stepped into the vacuum, set up the National Institute of Information Technology (NIIT), and began to offer computer lessons in the bazaar. They were so successful that they could not cope with the exploding demand. Since they did not have the resources to expand rapidly across the country, they hit upon

the idea of franchising their schools. Soon NIIT centres were flourishing even in the smallest towns. In Bombay, another entrepreneur had the same idea and he started Aptech. Today, India has more than 2000 centres, training half a million students a year. Infotech training has been growing 30 per cent a year. NIIT has 40 per cent market share of the Rs 1000 crore market—its alumni base is almost a million.

When NIIT and Aptech started expanding in the early '90s, there was a palpable sense of excitement among the youth. From Pathankot to Burdwan and Bikaner to Tellicherry young people everywhere began to flock into the new computer schools. These became the hip places to hang around. It was the second revolution in the Indian bazaar. The first had occurred a few years earlier, when Sam Pitroda's STD/PCO counters came up in towns and villages across India. A third information revolution may be around the corner when Internet kiosks and cyber cafes become ubiquitous.

NIIT dreams of becoming a world leader in computer education. It is present in thirty-one countries, and it recently opened in China, where 600 Shanghai residents are on its rolls. Pawar proudly tells me that eleven professors from Chinese universities spent more than a year preparing NIIT's lessons in Mandarin and adapting them for the Chinese audience. To become a world leader, they will have to conquer the United States, and they are planning to acquire a company there to get a jump-start. An American company would be expensive—it might cost as much as a $100 million. How can an Indian company with sales of $150 million buy a $100 million American company? It can, on the shoulders of NIIT's market capitalization of more than two billion dollars.

The tall, bearded, forty-eight-year-old Pawar speaks avidly. Everything seems to come from the heart. Although his head may be in the clouds, his feet are on the ground. The breakthrough came when NIIT discovered that it could franchise education in the way McDonald's did hamburgers. It is the first time in the world, as far as he knows, that someone has franchised education. Their secret lay in finding the right

franchisees, who turned out to be professionals (not local traders) and owned real estate in their hometown. NIIT trained them to become businessmen-educators. NIIT helps its franchisees to replicate standardized classrooms, gives them training material, helps them hire and train teachers, teaches them to advertise locally, audits them regularly, and administers exams with rigorous ethical standards. The attention to the detail and quality, backed by innovative advertising, has rapidly built the NIIT brand. Not having to invest in real estate, and spared the day-to-day problems of administering hundreds of centres in far-flung towns across the country, it devotes its energies to improving its courses and programmes. It has thus ensured that all its thousands of students get jobs within days of graduating.

Its most daring innovation is a four-year programme, equivalent to an undergraduate degree. The outstanding curriculum was created by a team of visionary educators. Ten thousand graduates have passed out of the 'world university' (a 100 per cent placed in jobs), and 20,000 are currently enrolled. NIIT's edge over our formal colleges is that learning is interactive. Students spend the fourth year as paid interns in 2000 affiliated companies. Since society expects its young to have a formal degree, most students are also enrolled in formal colleges, although they spend most of their time at NIIT. 'Success in education comes not from having the best teachers but attracting the best students,' says Pawar. NIIT does that. The matrimonial ads in the Sunday papers routinely boast the four-year G-NIIT qualification, and a girl with G-NIIT after her name, they say, needs a smaller dowry. My young neighbour tells me that he is spending Rs 56,000 for the four-year course, which he confidently expects will put him on par with engineering students on the job. The most important thing he has learned, he says, is self-confidence and teamwork.

NIIT has been reinventing itself over the past five years. Increasingly, it has turned to software solutions and educational multimedia and already has 269 titles. Almost half its revenues now come from non-educational services. Its software business

has the advantage in being able to hire from the best graduates in its own 'world university'. Out of NIIT's 3800 employees, 1500 are G-NIITians. The software business returns the compliment by creating case material for the education business. Like Infosys, NIIT retains talent through stock options, which it has given to about 1000 of its 3800 employees. Since the stock has also zoomed, 900 of them were worth over Rs 10 lakh, 88 were worth Rs 1 crore, and 8 were dollar millionaires in July 1999. More important, it has created 800 entrepreneurs through franchising and given indirect employment to 10,000 people through its franchisees.

NIIT's most fascinating experiment is to take computer education to 371 schools in Tamil Nadu. 'During the day schoolchildren are trained in air-conditioned classrooms,' says Pawar. 'After school hours the facilities are thrown open to residents of the town to help our franchisees make up for the lost profits during the day.' If there is profit to be made, competing education companies will scramble to replicate this across the country. If the Tamil Nadu experiment succeeds, the country might have found a model for taking computer education into government schools, and computer literacy could explode across the country. When Prime Minister Vajpayee's IT Task Force offered us the dream of making all schoolchildren computer literate by 2010 we thought it was a pipe dream. If the NIIT model works, that dream might come true.

Infosys and NIIT are the best examples of the new type of entrepreneurial companies making a mark in the brave new India after the reforms. There are many more and new ones are cropping up every day. One of them is Satyam Infoways, which was born in November 1998 when Vajpayee liberated the Internet from the clutches of the government. It is one of forty Internet service providers, and had a dream debut in October 1999 on Nasdaq. Increasingly, information technology services ought to overtake software. Among these, 'remote services' offer the greatest employment potential for India. A friend of mine has set up a business in Madras employing medical students to edit and proofread medical texts electronically for

a British publisher for a fraction of what it would cost to do the job in the UK. Aditi Technologies in Bangalore offers a mentoring service for Microsoft products, where customers post their problems on the net and Aditi resolves them via e-mail. More than a 100 people at Data Tree of Hyderabad convert mortgage documents from American cities into digitized CD-ROMs. British Airways and Cathay have shifted their back offices to India to reconcile worldwide accounts online. Citibank, American Express, and other international banks are doing the same.

Increasingly, American doctors dictate the diagnosis and prescriptions of their patients. These voice files are electronically transferred to Health Scribe, a company in Bangalore, where they are deciphered, entered into the computer and transferred back. GE Capital employs more than 2000 people in a global facility near Delhi to process mortgage and loan applications from around the world, answer questions from its credit cardholders in Europe and the Americas, and do payroll accounting for its plants and offices across the world. Since most employees do their work without ever seeing the customer, it should be possible to transfer lots of back-office jobs to India. I am on the board of Crest Communications in Bombay, which makes digital animated drawings for movies. It recently won a contract to make a 3D film for one of the Hollywood studios. Geographic Software Systems in Kerala has bagged an order for digitizing 5000 maps for Flensburg, a county in Germany.

There is no reason why many toll-free 1-800 call centres cannot shift from the US to India. What makes all this possible is India's universities, which produce two million degree-holders every year. They have varying levels of proficiency in English; most Indians employed in the remote-services business would be overqualified in the West. A certified public accountant working on account reconciliation costs GE $15,000-20,000 a year. In America, a less qualified worker doing the same job would cost three times more, and GE Capital's Indian operation expects to save GE $10 million next year. McKinsey

reckons this business could create one to two million jobs and be worth $50 billion to India by 2010. For this to happen the wholesale price of international calls would have to become competitive. We will also need to reform our labour laws to allow the hiring and firing of workers depending on market demand.

When President Kennedy amended the US immigration law, he set in motion the steady drain of talent from India and the rest of the world to America. Indians moaned about the brain drain, but they couldn't stop their children from migrating. I too felt uneasy that when the world was moving into the information age and knowledge increasingly separated the winning from the losing nations, we were losing our best and brightest brains. But I had a lurking faith that Indians abroad would one day return the favour to the land that had nurtured and educated them.

Payback time has now arrived. A tiny company in Bangalore called Armedia recently made its forty-three employees rich beyond their wildest dreams. It was started two years ago by Tushar Dave, a tall and soft-spoken chip designer who lives in Silicon Valley but retains his Indian passport and accent. America's Broadcom bought Armedia for $67 million in mid-1999 and gave every single Bangalore employee stock in the American company. Wall Street analysts think that Broadcom is one of the world's smartest companies, and when it acquired its first overseas venture in India, it sent a powerful signal to the world's investment community. The impact of this acquisition will be profound. It will bring investment, high-paying jobs, and exports for India, and it will inspire tens of Tushar Daves to do the same.

Tushar Dave has paid back. So have Raj Vattikuti, Bharat Desai, Ashok Trivedi, Sunil Wadhwani, and Nandu Thondawadi. They are Indians who made good in America, came back, and created jobs and software development centres here—even before India's own IT boom began. They belong to the 'billion-dollar club' of Indian software entrepreneurs who have had a meteoric rise in Silicon Valley. India matters to them because they can have the best of both worlds: a creative environment in America, which encourages enterprise, and the marvellous software development skills of India.

When Ramesh Chauhan sold Thums Up to Coke for $40 million a few years ago Indian companies shivered. There were howls of protest. How could we let foreigners seize our jewels? When Tushar Dave sold Armedia for $67 million, no one protested and many applauded. What has changed? For one thing, we have become more mature. We have begun to understand that ownership and national wealth are not the same. It does not matter who owns Thums Up or Armedia as long as jobs and economic activity are on Indian soil. We have also learned that buying and selling companies is part of the game. It makes for a stronger economy and gives Indian entrepreneurs a chance to be rewarded for their hard work. Today's entrepreneurs want to create a company, sell it after a few years, and reinvest their wealth in another venture. Thus, they need an exit route, and often the only one is acquisition by a foreign company.

The story of Ramesh Chauhan and Tushar Dave is a modern Indian parable. It took Ramesh Chauhan decades of sweat, toil and brand-building in a protected market to make a success of Thums Up. In between he got distracted and wasted his energy to keep Pepsi out of India. But he failed to do so. Had he focused his considerable skills on building his business, Thums Up would have been an even stronger brand, and Coke would have paid him an even higher price.

Tushar Dave went to Silicon Valley, where he worked for sixteen years as an engineer with Intel, and he acquired a goldmine of knowledge about chip design. He realized that Intel had made a fortune by making more and more powerful chips which made computers run faster. However, the world no longer needed more computing power, it needed computers and TVs to transmit data at very high speeds. He left Intel and set up Armedia to design these new chips in Bangalore. He desperately needed experienced engineers. But no one wanted to leave a secure job to join a small, risky venture. Eventually,

he got the right engineers because he offered all his employees shares in the company. In two years, Armedia developed chips that would go inside digital TV and decode pictures and sound. However, it did not have the resources to make and market the chips. But Broadcom in America did, and it realized that Armedia had created a world-class product. They decided to marry.

The parable teaches that in two years Armedia became a powerhouse of knowledge and 50 per cent more valuable than decades-old Thums Up. All the employees shared the rewards at Armedia, while only Ramesh Chauhan and his family did at Thums Up. Armedia is a creature of the reformed, liberalized Indian economy; Thums Up belongs to the old, protected socialist economy. Armedia is our future; Thums Up is our past.

I do not live in Bombay any more, but I am still very fond of it and visit it frequently, thanks to my consulting assignments. I have seen a creeping change. Earlier, this fine port city used to be liberal and cosmopolitan. For fifty years, it stood aloof, contemptuous of socialist India. Its heroes were its stylish cricketers, its flamboyant film stars, and its sedate merchant princes. Bombay was a miniature India which opened its arms to people from all over, and it contained an infinite number of social worlds, intricately interwoven, yet separate, which moved back and forth over the long strip of island.

In 1996, Bombay became Mumbai. If it had been a change in name alone, everyone would have dismissed it with an amused smile, as they did when Madras changed to Chennai. They would have shrugged their shoulders and said, 'What is in a name?' But the change from Bombay to Mumbai also signalled a new, intolerant spirit which rejected the mercantile, pluralistic ethos of a city built by traders and immigrants from all over India. At first, I used to dismiss the alarmist talk of my Mumbai friends. I used to think that it was business as usual. I believed that once it licked its transport bottlenecks, Mumbai could still aspire to become the premier commercial capital of

South Asia—a sort of Hong Kong. Ironically, as the city began to build flyovers and tackle its movement problems, I began to turn pessimistic. Then a devastating article by Christopher de Bellaigue called 'Bombay at War' in the 22 April 1999 issue of the *New York Review of Books* finally made me sit up and take note.

De Bellaigue describes how the once liberal city has turned into 'an ugly, disturbing shrine city called Mumbai . . . [with] a venomous political identity . . . [rejecting] the secular, universalist values espoused by Mohandas K. Gandhi and Jawaharlal Nehru.' Mumbai, he says, was born at the climax of this rejection on 6 December 1992 when the Babri Masjid was pulled down. From that tragic moment, he traces the events that Mumbaikars, to their shame, know only too well: the December-January riots, the retaliatory bomb explosions a month later, the 1995 assembly elections in which the Shiv Sena 'captured the state government from a jaded and discredited Congress'. The most important issue he raises is, why the liberal minded, articulate Mumbaikars did not lead a countercharge against the communalists. Why have they sat and watched the city bleed as the old traditions of tolerance and amity disappeared? He does not have a satisfactory answer, except to say that 'the elite of the city has decided that it pays to get on with the Shiv Sena'. He quotes Javed Akhtar's poignant metaphor: 'If the water is boiling, the frog will naturally leap out . . . Put the frog into cold water and turn on the stove, and you end up with a poached frog.'

I met many businessmen in Bombay during my consulting days, but the most fascinating by far was Subhash Chandra, the founder of Zee Television. Subhash Chandra comes from a cotton and grain trading family in Hissar in Haryana, not too far from Delhi. He barely got through high school and never finished college, but his ambition was outrageous. When his family's business went bust in 1967, he left Hissar with Rs 17 in his pocket. In 1999, he controlled a global entertainment empire with his Indian company alone worth over Rs 50,000 crore. Having acquired a stake in the ICO Global Satellite

Communications business, he plans to create a seamless communication infrastructure in India that could overtake all his other businesses. People call him 'the Murdoch of Asia'.

Subhash Chandra's great-grandfather was a blind Marwari from Shekhawati district, who left Rajasthan with his brothers to start a cotton trading business in the old, undivided Punjab. 'Only the weak and the unsuccessful Marwaris leave home,' Subhash Chandra reminds me. They were successful and eventually had a dozen branches in Punjab and one in Manchester in England. Subhash Chandra grew up in his grandfather's joint family home in Hissar, where he only heard talk of cotton and helped his grandfather to write hundreds of postcards daily to suppliers and customers. In 1967, when he was at the Government Polytechnic College in Sirsa, he got the bad news. His family had been wiped out in the speculative cotton ginning business and he would have to withdraw from college because they couldn't afford the fees. As he was leaving home his grandfather said, 'Do anything but don't touch cotton.'

A bumper grain harvest in 1976 presented the first opportunity to rebuild capital. The state-owned Food Corporation of India was desperately seeking additional storage space for 14 million tonnes of grains, and Subhash Chandra stepped in with a plan to store the grain mountains in the open under plastic sheets. Thus, he found himself fabricating polyethylene covers and learning about plastics. He reinvested these profits in a venture exporting rice to Russia which made a great deal of money—and some controversy. Now he had serious capital. He knew about plastics and he wanted to become an industrialist. He came to Bombay and set up a packaging plant to make plastic laminated tubes (for toothpaste) when everyone else made aluminium tubes. With 40 per cent lower costs than aluminium tubes, he eventually succeeded in becoming a supplier to Colgate, Levers, and others. It took five years of losses and humiliation before 'the grain trader' was accepted by the multinationals, but in a decade he became the second largest and the lowest cost producer of packaging tubes

in the world, earning Rs 100 crore profit before tax.

Subhash Chandra had also invested part of his Russian profits in 730 acres of jungle in Borivili, in the distant suburbs of Bombay. He got it cheap because it was in a 'non-development zone' and builders were not interested. He was allowed to set up a Disneyworld type of family entertainment centre in the jungle called Esselworld. Hoping for three million visitors, it only got a million and was not a commercial success. Nevertheless, Subhash Chandra was convinced that 'Indians were hungry for entertainment'. He persisted in seeking opportunities in entertainment, but all his hare-brained schemes met a regulatory roadblock. His breakthrough came in 1991, when he heard that satellite TV was starting in Hong Kong. Private broadcasting was forbidden in India, but why couldn't he show Hindi films on TV from overseas?

It took him months before the Hong Kong executives of Star TV would even see him. When they finally met, they said India was poor and starving and Subhash Chandra must be crazy to think of cable television. Besides, they said, they didn't want a 'grain trader' for a partner. It hurt. He swallowed his pride and he told them not to make him a partner but lease him the transponder for an India footprint for $1.5 million a year. They were tempted, but they didn't believe that he had the money. To get rid of him, they mentioned the outrageous figure of $5 million. 'Done,' said Subhash Chandra, 'but only if you sign today.'

Everyone thought Subhash Chandra had gone mad. There was no certainty that the government would not try to stop him. How would he earn revenues when the Indian government forbade advertisers to pay money overseas? But he had a dream and nothing was going to stop him, and Indian TV broadcasting has never been the same. Eventually, Star TV signed with him for a joint venture (weighted in their favour). His great coup was to persuade the Reserve Bank of India to allow exporters to pay for advertising in foreign currency. Starting with a three-person shop, he went on to build a media empire spanning the globe. His Zee TV now reaches twenty-two million homes in

India and its advertising revenues have crossed Rs 600 crore, ahead of the state-owned Doordarshan, which reaches sixty million homes. Indians abroad in the Middle East, UK, Africa, US, and Canada watch the Zee channel on their cable, and his overseas earnings now equal those in India.

There have been obstacles. The most formidable one was Rupert Murdoch, who bought the ailing Star network in 1993. He wanted Subhash Chandra out. He understood the power of an Indian languages network in India, and he wanted it for himself. Although Zee's contract with Star was weak, Subhash Chandra was able to bluff his way in the negotiations, convincing Murdoch that he needed him. They remained equal partners in the Indian broadcasting business until October 1999, when Chandra bought Murdoch's share for close to $300 million.

In ambition, Subhash Chandra is a match for Murdoch. He is also equally ruthless. Although he has made twenty of his executives millionaires (in dollars) through stock options, he dumps people when he doesn't need them. He can be tough with his cable operators and can lobby hard for government policies that suit him. However, he matters because Zee has created an estimated quarter of a million jobs directly and indirectly. This could become a million in the next five years with his ambitious new ventures—four regional channels, a sports channel, a news channel, an Internet portal and service provider based on its vast film library of 3000 films, a new TV magazine, Zeenet interactive Internet service through its SitiCable network, and Direct-to-Operator pay-TV service through its cable network. Every sixth person in the world is an Indian, he says, and his ambition is to eventually have two out of three Indian eyeballs (including the diaspora) tuned to Zee.

I have recounted the stories of Infosys, NIIT, Zee Television, and Armedia. Other new and successful companies have emerged after the reforms. Jet Airways has created arguably the best domestic airline in the world. Sun TV started as a Tamil channel from Madras and it was so successful that it now controls the regional cable TV market in all four languages in the south. Ranbaxy, Dr Reddy's Laboratories, Cipla, and

Wockhardt are building successful global generic pharmaceuticals business. In September 1999, Ranbaxy sold the global marketing rights for a new dosage form of an anti-infective to Bayer for $67 million plus royalties. Dr Reddy's similarly discovered a new molecule for diabetes and licensed it to Novo Nordisk, a Danish multinational, for clinical development.

All new ventures are not going to succeed. Some companies started brilliantly after liberalization but did not have the ability to sustain success. They crashed during the liquidity crisis in the mid-'90s partly because their ambitions overtook their financial capabilities. They have brought a great deal of pain to their customers, shareholders, employees, suppliers, and bankers. The saddest tale is that of R. Subramanium of Madras, who created Sterling Resorts and made it the largest holiday time-share company in the world with 49,000 customers and ten resorts. From there, he went on to build an exciting venture in commercial agriculture, Maxforth Orchards, to grow fruit trees on dry lands. He started it in 1993 and quickly built an excellent team of young professionals. By 1996, he had 20,000 customers and 25,000 acres of dry lands. One day an impressive salesman from Maxforth came to sell me a mango orchard for Rs 1.2 lakh in Jallipati, Tamil Nadu. He explained that I could hope to earn a 20 per cent return after the fourth year and a 100 per cent from the twelfth year for the next forty years. He compared my investment to blue-chip stocks and gold. I did not invest but I was thrilled by the enterprising spirit.

Subramanium had the vision of creating Israeli-style orchards on vast amounts of Indian dry lands, which lie fallow and wasted across the country because the peasant doesn't have the capital to farm them. He felt that it needed the transfer of capital from urban to rural India to make them productive, and this is what he set out to do. He set up a training school for agricultural graduates near Madras in collaboration with Camtec of Israel. He planned to drip-irrigate the orchards with groundwater. His experts would manage the farms scientifically

and even provide efficient post-harvesting facilities via a cold chain. Sales of the fruit minus the cost of materials and management would become the returns to the investor. Since government rules did not permit a company to own farmland, he devised the ingenious solution of giving the land title to thousands of urban investors who would own one-acre plots within a Maxforth orchard. The investor could buy and sell his title much like an open-ended mutual fund. Thus, capital would be transferred from urban to rural areas, and he would one day green 240 million acres of India's fallow wastelands and create millions of jobs in the rúral areas. It was a wonderful dream.

The dream soured because Subramanium's ambition was too big and he wanted to move too quickly. He was not satisfied with orchards. He wanted to start his own cold storages, packaging, and transport facilities, a chain of 640 supermarkets to sell his produce, an export company to export the fruit, his own schools, teak plantations, eco-villages. There is only so much a man can do. When the liquidity crisis came everything collapsed. Today, he sits in Madras, a tragic figure hounded by his creditors. In the end, he has done incalculable damage because he has destroyed thousands of others' dreams.

There are three kinds of companies, according to Professor Birch at MIT. He calls them elephants, mice, and gazelles. The elephants, of course, are the large Fortune 500 companies like General Motors. At the other end are the vast number of tiny enterprises in the bazaar—retail shops, restaurants, and services. He calls them mice. The third are gazelles, which start small and grow extremely rapidly through innovation. Microsoft and Intel are gazelles. Sometimes gazelles create entirely new industries. Federal Express and UPS pioneered the courier industry.

Professor Birch's research shows that 70 per cent of the new jobs in the United States have been created by the gazelles. Everyone knows that the US has been extremely successful at generating employment—having created 26.4 million jobs in the last two decades. The elephants have not added to employment; in fact they have downsized in the past decade. Neither have the mice: for every new one that comes up, another usually dies. The gazelles eventually become elephants, but on the way (as they ride the 's-curve') they create enormous number of productive, high-quality jobs. Successful economies create conditions for the gazelles to come up and to succeed.

In India, we too have had a few gazelles—Reliance, NIIT, Jet Airways, Infosys, Zee TV. Our challenge as a nation is to find entrepreneurs who have a vision and a dream, and who will be the gazelles of tomorrow. Once found, we have to make it possible for them to succeed. This is not easy, for the scarcest resource in any society is entrepreneurship, and four out of five entrepreneurs fail. So, it is a real art to find out who will succeed. The question is, how do we find and nurture gazelles? And who should do it? Clearly, the government should not. It should be kept as far away from them as possible—it does not understand business and it will only succeed in killing them.

The answer is venture capitalism. Many of America's gazelles came up this way. A venture capitalist doesn't go into business himself. He looks for a young person with an idea and offers to provide him or her with capital (and management help) in exchange for a share of future profits. Since banks are risk averse and will not lend to a young person with an idea, every entrepreneur is always short of capital and welcomes a backer. When the business takes off after three to five years, it usually needs another dose of capital to fund expansion. By now, the business has built a record of accomplishment of profits, and the sensible thing is to take the company public and raise the expansion capital through the stock market. This is also the opportunity for the venture capitalist to book his profit, sell his shares, and exit from the venture. And look for another gazelle to nourish.

A number of successful Indian industrialists have asked me for advice on philanthropy. Typically they say, 'I have made my money and I am not getting younger. What should I do?

Where should I donate my money?' When business people think of philanthropy, they usually think of temples, hospitals, schools, and scholarships. These are good things, but I generally turn them in the direction of a good NGO, because I find they are doing a better job of social uplift than private charities. However, after reading Professor Birch I think that spotting and nourishing gazelles can also be philanthropy. What could be a better idea than to provide seed capital to a young person with a dream and thereby create many productive new jobs in the economy and build competitiveness at the same time?

This is not an entirely new idea. Some Indian business communities—notably the Jains in Gujarat—provide risk capital to youngsters with the understanding that they will repay it later in life. In the nineteenth century, there existed a similar support system for Marwari youngsters who went off to Calcutta from the villages of Rajasthan. My son argues that venture capitalism is not philanthropy. It is business. But if one retains the capital in the fund and reinvests the profits in new ventures, then I think it is philanthropic. To further my venture capital ambitions, I met a number of experts and discovered that venture capital funds had not done well in India. To do it properly, I realized, it should also be a biggish fund and run by professionals.

As luck would have it, one morning, quite out of the blue, two young Harvard Business School graduates, Ashish Dhawan of Goldman Sachs and Raj Kondur of Morgan Stanley, phoned me from New York. They were thinking, they said, of quitting their jobs and starting a venture capital fund in India. They thought they could raise $50 million from Wall Street, and would I be the chairman of the fund? It was like a dream come true, and I jumped at the idea. They flew to Delhi and we finalized our agreement. The following month I went to New York where I met their lead investors, Jeff Kiel, the former president of Republic National Bank, Edward Stern, senior partner at Lazard, and Jerry Rosenfeld, who had been with NationsBank, Lazard, and McKinsey. They had agreed to start us off with $15 million. By now, my young associates had quit their jobs. They told me that they had created a data bank of 100 Indians in America who were reportedly worth over $50 million each, many of them in Silicon Valley. We agreed to target them for raising funds for our venture capital project. As it turned out, they were able to raise over $100 million and we had to cap the fund at $60 million. We opened for business in November 1999. It is by far the most interesting thing that I have done in my life.

On the other hand, the most frustrating thing about living in India in the '90s is to have had to sit at the sidelines and watch the slow progress of liberalization. I have found it painful to get up each morning, open the newspaper and read about the foolish economic policies of the ministries of civil aviation, agriculture, commerce, telecom, and power. Hence, I have a certain amount of inner pressure to join politics and *do* something to accelerate the economic reforms. I was also goaded by a few, including John Pepper, the CEO of Procter & Gamble, who in his idealistic way always thought that I was meant to enter politics in India. Elections also came around with surprising frequency because of coalition politics and fractured mandates, and there were plenty of opportunities. So, I began to meet leaders of the Congress and the BJP, the only viable alternatives. Initially, they welcomed me, thinking secretly that I might help them in raising funds from industry. I spoke to them of the urgency of pushing the reform agenda. Invariably, they would agree with me—they were politicians after all—but I could tell from their eyes and their body language that they were humouring me, and reforms were the last thing on their minds. Eventually, I became such a nuisance that they were happy to promise me anything as long as I would go away. I concluded, painful as it may have been, that they had no use for reform-minded managers in politics. Today, a lingering sense of defeat gnaws at me. My conscience says that politics is abrasive everywhere and it has always entailed sacrifice, and I wonder if I have chosen the 'safer' but less courageous route in opting out.

All the stories of the entrepreneurs I have told are a

testimonial to liberalization supported by globalization. They reflect a new social contract for post-reform India. The critics of the reforms remind us ad nauseam that liberalization will only make the rich richer. This is not true. All the millionaire entrepreneurs in this chapter started modestly. By opening the economy, we seem to have opened the way for a new merit order, where talent, hard work, and managerial skills matter far more than inherited wealth. The old business houses no longer appear to have an advantage, because international fund mangers are blind to the past and seek only the best ventures today, run by the most talented professionals. Over time, this ought to lead to a fairer society. The old industrial empires will sell out gradually to new, more able entrepreneurs. No one, it seems, has a head start. The Internet has also levelled the playing field. Any mad, passionate Indian entrepreneur can do it!

Literature is about passion. But, so is business. How else does one explain the insane behaviour of otherwise sensible Indians who have pulled out all their hard-earned savings after the reforms to start a business and chase a dream? Are they aware that nine out of ten businesses close after twelve months? The remarkable thing about a vibrant economy is the very high failure rate of its entrepreneurs. Success in business goes against the odds. In India, there is also the indignity of having to grovel before and bribe a dozen inspectors. Thus, an entrepreneur has to be a gambler or a lunatic with an impaired judgement about life. Some will call this courageous, others stupidity. It is passion at the root which inspires it. These entrepreneurs are as mad as our medieval Rajputs who went to battle time and again, when they knew in their hearts that defeat was their only prize.

18

Old Money

> The interval between the decay of the old and the formation and establishment of the new constitutes a period of transition, which must always necessarily be one of uncertainty, confusion, error, wild and fierce fanaticism.
>
> —*John C. Calhoun*

Old money has always looked down on new money. Over the centuries, the newly rich have been objects of scorn and derision. Now, perhaps, for the first time in our history, the new millionaires are looked up to with pride and even reverence. For they are a new meritocracy—entrepreneur-professionals who are creating value by innovating in the global knowledge economy. In September 1999, *Business Standard* published a list of 100 Indian billionaires, in which eight out the top ten were first generation entrepreneurs. Six out of the top ten had made their fortunes in the knowledge industries. They did not inherit wealth, nor did they have a family name. They reflect a new social contract of post-reform India where talent, hard work, and managerial skill have replaced inherited wealth. This is one of the most exciting developments of our time. The Internet has so levelled the playing field that anyone with

a good idea can become rich. Business is changing so rapidly that anyone who can foresee the changing needs of the market will not only become rich but also create millions of jobs and transform our poor, hierarchical society.

In 1947, when India became free, the nation's wealth resided with the landed gentry. Talukdars and zamindars lorded over impoverished peasants. There were a few trading and industrial families to be sure. Some of them had even avidly supported Mahatma Gandhi and the freedom movement. But they were socially inferior to the large landlords. After Independence, the new government took over the princely states, abolished zamindari, and decimated the 'old money'. The industrial families thought that now their time had come. But their hopes were short-lived, because the socialist government shackled them with the most stifling controls and raised tax rates to extortionate levels. Wealth did not shift from zamindars to the business class. It went to finance the public sector enterprises.

The middle and small landlords, meanwhile, were not destroyed (because we did not fully implement land reforms). When the green revolution came in the 1960s, these farmers in Punjab, Haryana and western UP seized the opportunity. They got tractors, put in tubewells, imported Bihari labour, and no one grudged them their new wealth because it was earned through hard work and not from rents from peasants. The rent seekers were a new class of bureaucrats and politicians who were getting rich from the Licence Raj. By the '70s, Indians started leaving in large numbers for the Middle East and a new monied class of NRIs came up who invested their gains in garish bungalows in Ḳerala and Punjab. NRIs, green revolution farmers, and corrupt public officials became the 'new money'.

With the coming of the reforms in 1991, money-making again became respectable, and the old business houses suddenly acquired the esteem and power that had eluded them for fifty years. They finally became 'old money'. However, socialist controls had so emasculated them that they did not know how to respond to the new competitive climate. Like hungry children, they began to set up ventures with foreigners promiscuously, without a thought to their own capabilities. They expanded capacities unthinkingly. When the recession came in 1997, supply was hopelessly ahead of demand and they were in trouble. The joint ventures began to come apart as foreigners realized that their Indian partners were not up to scratch—they had neither the competence nor the capital. The Bombay Club began to clamour for protection.

Eight years after the reforms, 'old money' is floundering. It has still not acquired the skills to succeed in the global economy. It continues with a factory mindset when the industrial age is disappearing. If old India Inc. is in trouble, fortunately there is a new India Inc. emerging. The 1991 reforms have enabled young Indians to try and pursue their dreams. The world has also changed to our advantage. Unlike the industrial age, the information age speaks to our strengths.

Our bureaucrats and incompetent industrialists may have killed our industrial revolution at birth. 'Old money' may have let us down. But 'new money' understands the Vedic adage that 'knowledge is wealth' and it will create millions of new jobs and prosperity in the twenty-first century.

It is become increasingly clear that a definite divide has emerged in Indian business. There seem to be two India Incs. One is the new, vibrant world of knowledge-based, globally competitive companies in software, Internet, IT-enabled industries, generic pharmaceuticals, and entertainment. We encountered some of these entrepreneurs in the previous chapter. The second is the world of the old family business houses, which is hopelessly diversified in a vast number of commodity businesses. Its joint ventures with foreigners are unravelling and it cries for protection. The dilemma of Rahul Bajaj illustrates my point. I have chosen his example because he is, in fact, the best and strongest representative of old India Inc. I could easily have chosen, for example, the branch of Birlas which has made Ambassador cars that have been the shame of corporate India for fifty years, or any number of the dying companies of the Modis or the Singhanias, but that

would have served little purpose.

In 1988, Rahul Bajaj had a dream. 'What will give me satisfaction,' he told a journalist from London's *Financial Times*, 'is to become a truly international company selling around the world, to become known internationally for quality, technology, and low cost.' This is, indeed, the dream of every Indian businessman. Unlike others, however, Rahul Bajaj had the permission to have such a dream. But he has failed to achieve it. Nor is he likely to in the near future. Why he failed tells us something about the future of Indian companies.

Rahul Bajaj is the clear market leader in India—the world's second largest two-wheeler market—with a 65 per cent share of scooters and a 40 per cent share of all two-wheelers. He is also the world's second largest maker of scooters and fourth in two-wheelers—after Honda, Yamaha, and Suzuki. Despite this awesome size, he only competes in India. His exports are merely 4 per cent of his output. 'I would like to raise my exports from 2 per cent to 15 per cent of production,' he had said eleven years ago.

The dilemma of Rahul Bajaj is typical of successful Indian companies. He is a leader and yet he is unable to take the next step, which is to become a global player. With massive economies of scale, he is the world's lowest cost producer. He has a rugged, durable product for Indian roads and a dealer and after-sales service network that is twice the size of any of his competitors. In recent years he has improved his product, and been able to withstand the challenge of the Japanese competitors on his home ground—although he may have lost some market share. He makes more profit than all his Indian competitors put together, and he is cash rich.

Despite these advantages, Bajaj does not have the confidence to take on the Japanese in the world market. He is daunted by the brand equity of Honda and Yamaha. 'Made in India', he feels, suffers from a poor image. He fears Japanese R&D capability, although two-wheelers are a mature, stable technology. By Japanese standards, he spends very little on R&D, but he is able to copy their innovations and keep up. He

worries about their vastly superior distribution capability overseas. He is concerned about the rigid, unionized attitudes of his workers to deliver consistent and reliable quality.

Before the reforms, no one would have thought of criticizing Rahul Bajaj for not thinking globally. Government rules did not permit him to expand production at will, or buy new technology without a lengthy approval process, or import components or machines at a reasonable customs duty. Nor could he have a foreign operation, or buy equity in a foreign company. He also suffered from high Indian costs of steel and power. Thus, Rahul Bajaj had a purely local mindset of a shortage economy. He sold everything he produced. Indeed, there was a ten-year waiting list for his scooters, which sold in the black market at a 40 per cent premium. He never developed marketing or product development skills. Nor did he need to.

It is not entirely his fault that he failed to realize his dream. The legacy of a closed economy has caught up with him, and his problems stem from this root. He is the symbol of an India hobbled by poor infrastructure, obstructionist bureaucrats and inspectors, high tariffs, and interest costs, of a nation that wants to create an industrial revolution when the industrial age is disappearing.

Rahul Bajaj looms large on the Indian industrial horizon like a tragic figure. He is innocent, straight-shooting, and he wants to be loved. Having built a great company, he now seeks survival rather than leadership in the global economy. He pursues 'incrementalism' when he needs to think 'discontinuity'. Similarly, other Indian companies are creatures of a system they did not create. They do not have the skills to succeed in a global economy. Years after the reforms, they are still floundering. Success in the global economy needs three things—massive investment in human resources; a passion for product improvement; and a deeply caring attitude for customers. Smart Indian companies understand this. Then, why haven't they acquired these skills? The answer is that it takes time to change from doing what you have been doing successfully. But time is precisely what they do not have.

When I first started my consulting work, I met many sceptics who claimed that the economic reforms had been superficial and would not have lasting impact. However, one businessman, Abhijit Sen of NICCO, catalogued eleven ways in which his telephone cable business had been transformed by liberalization, thereby demolishing the sceptics. Sen said that without the reforms, his business would not even have existed. Until 1986, the government did not permit the manufacture of telephone cable by the private sector. However, there still existed severe licensing obstacles, which meant that a bureaucrat made the key business decisions. These licensing restrictions went away in 1991, and the company rapidly increased its capacity (by five times). Second, he had to split his business before 1991 into three uneconomic units because he did not want his assets in any one unit to exceed Rs 100 crore, which would have made him a 'monopoly' company under the MRTP Act, and denied him the ability to expand. He merged the companies after 1991 with enormous savings in taxes.

Third, he used to have four full-time people in Delhi to do government liaison; now he had one part-time person because all his raw materials had been decontrolled. Before 1991 he had one person to kowtow to the steel controller, a second to kowtow to the aluminium controller, a third to kowtow to the copper canalizing agency, a fourth to kowtow to the STC for the import of special plastics. Fourth, he no longer needed to get capital expansion approval from the CCI. The merchant bankers got it done in less than half the time through SEBI. Fifth, he did not need JCIE approval for the import of raw materials. Sixth, he no longer needed BOD approval for loans above Rs 5 crore. Seventh, he did not need RBI permission to travel abroad; earlier it took a month to get foreign exchange. Eighth, Modvat had been extended to his line of products, which had provided significant tax savings. Ninth, West Bengal had abolished octroi check posts and that speeded up movement of his goods. Tenth, he could travel to most cities in India even at the last minute, without having to rely solely on Indian Airlines. Eleventh, his productivity was up 35 per cent because of changed work attitudes. His 2000 workers produced three times more cable than they did in 1991.

This is merely one example, but it illustrates the manner in which Indian managers run their businesses. Industrial liberalization has allowed them to expand existing businesses or start new ones without government approval. Hence, they have invested heavily in new capacity, in some cases in world-scale plants (because there is no bureaucrat to decide whether such scale is appropriate). In other cases, they have used the opportunity to leapfrog in technology without the Directorate General of Technical Development telling them which technology is appropriate. Trade reform has made it possible to import raw materials and key components without a licence. Tariff reductions have reduced their costs and helped them become more cost-competitive. The freedom to choose between an Indian or foreign supplier has forced Indian suppliers either to improve their products to the standards of the imported ones or to lower their costs in order to compete against cheaper imports. The weaker suppliers have lost significant market shares to imports.

Indian markets have become progressively competitive after the reforms. Even where new competition has not yet emerged, managers are worried that their businesses are under threat from potential rivals. The awareness of competition has finally come to occupy the central place in the mind of the Indian manager. For the first time, companies are having to face tough choices about what products to make, for which markets, and aimed at which customers. They are having to become strategic rather than opportunistic.

Forty years of socialism, I discovered, was not able to destroy India's legendary entrepreneurship, although it had distorted its behaviour. Indian companies had real strengths. They had been set up largely by our trading castes with enormous financial acumen, an austere lifestyle, a propensity to take calculated risks, and an ability to accumulate and manage capital. For the past fifty years, the Birla companies had

monitored performance of their numerous enterprises across the globe on a daily basis. The Ambanis had single-handedly created the 'equity cult' in India by building a base of more than two million shareholders—one of the largest for any company in the world. Because many Indian industries had been under severe price controls in the socialist raj, companies had been forced to become low-cost producers in order to survive. These constituted significant strengths and provided a basis for competitive advantage as India joined the global economy.

Indian companies also had clear and numerous weaknesses. The most important ones were: the inability to separate ownership from management; a lack of focus and business strategy; a short-term approach to business, leading to an absence of investment in employees and in product development; insensitivity to the customer, largely because of uncompetitive markets, but resulting in weak marketing skills; an indifference to technology; and, lastly, poor teamwork—we are not good team players. Many of these weaknesses were the result of closed economy.

A striking characteristic of Indian business is that it is family owned and family managed. However, family firms, I discovered, are nervous. They are worried that their family-run business will not be able to cope with the competitive demands of the post-reform world. I have tried to reassure them by pointing out the persistence of family businesses in advanced societies. I told them that they had acquired a distorted view of economic history, in which the family firm is regarded as the beginning of corporate evolution. As the firm grows and needs more capital, it employs professionals, goes public, and becomes a giant corporation owned by faceless shareholders.

The reality is that family firms still dominate business life around the globe, and they are especially important in the emerging markets of Asia and Latin America. France, Italy, and capitalist Chinese societies like Hong Kong and Taiwan are dominated by small family-owned and managed businesses. The success of the Italian, French, and Chinese small enterprises

suggests that being a family firm per se is not necessarily a disadvantage. However, a successful family firm must be able to professionalize. It must be capable of recruiting and retaining outside professional talent. In a competitive world, it must be able to get the best person to run the company. If the family member is not the best person, then it must be willing to hand over the management to an outsider. Thus, to professionalize means that the family must make the mental leap and separate ownership and management, and distinguish between the family's interest and the company's interest.

Most Indian companies are in transition today. They are coping painfully with the problem of incompetent family members at the top. Rahul Bajaj says, 'It is easy to get rid of an outside manager, but how do you get rid of a family member? You must either do what is right for the business or the family. Either way, you will end up with an unhappy family or a weak company.' Because of competitive pressures it is beginning to dawn on Indian businessmen that superior companies are built by superior people; that the success of their company depends on their attitude towards men and women of high ability and advanced training. A businessman of a Rs 1600 crore company confessed to me: 'In the past, I was extravagantly wasteful of talent or myopic in believing that I could do it all by myself.' Almost every industrialist I come across says that his biggest challenge is to find men and women of ability to manage crucial positions in his company. This is a profound change in the Indian business world after the reforms.

The inability of Indian business to create large-scale non-family organizations, I believe, may not necessarily constitute a constraint on the rate of economic growth, at least at our stage of industrialization. What small companies give up in terms of financial clout, technological resources, and staying power, they gain in flexibility, lack of bureaucracy, and speed of decision making. Throughout the 1980s, the economies of Italy and other family-oriented Latin Catholic societies in the EU grew faster than Germany's. Max Weber, who argued that the family orientation of China would impede economic modernization,

was simply wrong. Indeed, it is likely that small Chinese and Italian family businesses will prosper more than large Japanese or German corporations in sectors serving fast-changing, highly segmented consumer markets. If our objective in India is to maximize aggregate wealth, then we have no particular need to move beyond relatively small-scale family businesses.

Whether businesses here can create managerial capitalism depends partly on Indian society's ability to build 'social capital'. Where strangers spontaneously trust each other and cooperate with each other, there is high social capital. Indeed, Tocqueville regarded this 'art of association' as an essential virtue of American society because it moderated its tendency towards individualism. Trust and cooperation are necessary in all market activity. High trust can dramatically lower transaction costs, corruption, and bureaucracy. While family capitalism may be successful in Italy, Taiwan, Hong Kong, and France, it seems also to be accompanied by education and a strong work ethic. Otherwise, it leads to nepotism and stagnation. Many large and successful Indian companies have begun to realize that educated, hard-working professionals usually outperform lazy, uneducated nephews. But thousands of small and medium enterprises, which form the core of the private economy, are still struggling with this issue.

I keep reminding the family companies that 'family capitalism' is not necessarily a disadvantage or a weakness in the global economy. The inability to professionalize—to bring in and retain outside talent, to institutionalize, to separate mentally the family's interest from the firm's interest—is clearly a weakness. In the successful exporting nations, family firms have overcome this weakness. In India, they are still struggling.

A more unique characteristic of Indian business, at least until recently, was that it was managed as a joint family, where brothers and nephews worked and often lived together. An example is the Palanpuri Jains of western India, who have established commercial colonies in the diamond centres of Tel Aviv, Antwerp, Bombay, London, and New York, and who today account for roughly 50 per cent of all purchases of rough

diamonds in the world. Because of the inherent trust in a joint family, Jain diamond merchants rely on brothers and cousins to keep this highly scattered, specialized, and intrinsically high-risk business together, according to Joel Kotkin in *The Tribes*, a provocative account of tribal behaviour in the global economy. It is the family and ethnic ties that give them competitive advantage and partially explain their recent gains in market share at the expense of the Orthodox Jews. Does a joint-family business provide a competitive advantage in business? I put this question to Rahul Bajaj, whose family is one of the few surviving joint families in Indian business. His answer was an emphatic 'no'. 'Business has to be efficiently managed,' he said. 'Efficient managers are more likely to be outside the family rather than within. You have no choice but to bring them in to run the family businesses. Otherwise you won't be competitive.'

'Does the joint business family have any advantages?' I asked.

'Prima facie, there might be two, but I doubt if they are, in fact, sustainable,' he said. 'One is commitment, which in a simple-minded way is translated into hard work. The other is continuity. I am not sure about either because I have seen just as much commitment and hard work among professional managers. And I have seen just as many lazy family managers. As to continuity, it seems to be often a liability rather than an advantage when you can't replace a family member who does not perform.'

Twenty years ago the majority of large business in India was run by joint families. Today the joint business family is almost dead. The question is, why did the families separate and what is the fallout of the splits to corporate performance and strategy? Pulin Garg, the thoughtful professor at the Indian Institute of Management, Ahmedabad, believed that it was a law of nature that families should break up. He used to say, 'Haveli ki umar saath saal' ('The life of a family is sixty years'). Thomas Mann, the Nobel Prize-winning German writer, expressed the same sentiments in his great novel, *Buddenbrooks*,

arguably the finest book ever written about family business. It describes the saga of three generations: in the first generation the scruffy and astute patriarch works hard and makes money. Born into money, the second generation does not want more money. It wants power; and it goes after it with the single-mindedness of a Joseph Kennedy. Buddenbrook's son becomes a senator. Born into money and power, the third generation dedicates itself to art. So, the aesthetic but physically weak grandson plays the violin. There is no one to look after the business and it is the end of the Buddenbrooks family.

If there are advantages to life and work in a joint family, why indeed have most of them fallen apart? In unusual cases, where a joint family manages to survive, it is because of the practice of strict equality within the family. Neeraj, Rahul Bajaj's cousin, who runs Mukund Iron & Steel jointly with the sons of Viren Shah, finds many financial advantages to a joint business family, and attributes Bajaj's success in remaining together to the strict equality with which they divide the pie. 'We may run businesses of different sizes but we have the same standard of living. Rahul runs the Rs 3000 crore Bajaj Auto and Shekhar runs the Rs 300 crore Bajaj Electricals, but they get equal salaries and equal pocket money. We travel in the same types of cars, in the same class on airlines; we usually vacation together; thus, we minimize differences and comparisons.'

A Birla scion says, 'In a sense, life in joint families is a bit like life under socialism. They do not work in the long run in the same way that socialism does not work. Joint families require strict equality. Because human beings are unequal and need material incentives to perform, joint families break down.' A member of the Murugappa family (one of the old Chettiar families that is still together) says that 'young Vellayan, who runs the TI group of companies, was refused an air-conditioned car some years ago; if the old patriarch, M.M. Arunachalam, did not have an air-conditioned car, how could Vellayan?'

The family splits have reduced the advantage of the combined group to borrow money or to negotiate common

purchases. In a few cases, they had a positive fallout in making the businesses smaller and more manageable, especially where the families split businesses logically along industry lines. This helped make the businesses more focused and strategic. In most cases, however, the families ignored business synergies and split the assets in a manner that only served the family interest. In the latter case, the next generation is grappling with the issue of divesting unrelated businesses which lack critical mass.

In the new environment, mediocre children will not survive on the basis of inherited wealth. In any society, gifted entrepreneurs are a tiny part of the population. If this is true, then most heirs will fail. Their companies will eventually die, destroying in the process the careers of hundreds of managers and workers. So, the best course open to them—and this is the advice I have given to several companies—is to sell out and enjoy a life of ease and luxury. Both their family and their company will be happier. This is what the industrial families have done in the US for a hundred years. However, this is precisely what they do not wish to hear, and in all the cases my advice was ignored. In fact, the families compounded the sin by dividing the companies among their children in a democratic manner, and this weakened the entire business group. What they ought to have done is to have given their children equal shares in the entire business, and had the most talented family member or an outside manager run it.

Swaminathan Aiyar, the consulting editor of *Economic Times*, suggests a reason why they might not have done it. According to him, it is because of bad habits acquired during Indira Gandhi's rule, when income tax rates were 97 per cent and industrialists could either pay taxes and go broke or operate in the black economy. They chose the latter. This meant that each family member needed a company to generate black money in order to survive. High tax rates also hastened family quarrels and splits because most of the profits were off the books. As no one knew who was making how much, each heir wanted his own company.

The bigger failing of Indian companies, I find, is that they want to do everything. Whether it is the Tatas, the Birlas, Singhanias, Modis or Thapars—the vast majority of big business in India lacks focus. The average business house is engaged in eighteen different businesses. Reliance, in refreshing contrast, makes only a few products (all from petrochemicals) and does it well. Ranbaxy makes only generic pharmaceuticals; Infosys only creates software.

Whereas companies overseas have been shedding unrelated activities, Indian companies seem to have gone the other way. Among the fifty leading Indian companies studied by Dr Freddie Mehta in 1993-94, there was a specific mention of starting a finance company in the majority of the chairmen's statements. The 1994-95 chairmen's speeches proclaimed their interest in the power sector. The 1995-96 reports showed a strong desire to enter telecommunications. It takes decades to master the fundamentals of an industry through painstaking attention to detail—building suppliers, creating distribution networks, understanding customer needs. Yet, Indian business treats the serious decision of entering a new and unrelated industry as though it were a 'flavour of the year'. It is difficult to have sympathy with the Bombay Club when some of its members behave in this amateurish, drawing-room manner. Particularly in infrastructure, the stakes are very high, and Indian companies do not have the business fundamentals or the funding capability.

Having said that, there are many responsible businessmen who are questioning their basic strategy, and have asked themselves, 'What is our core competence?' and 'Where can we create competitive advantage?' They have brought in consultants like McKinsey and Arthur Andersen to help them restructure their businesses. The laws governing buying and selling companies have also made mergers and acquisitions easier. Thus, the diversified house of Tatas has divested itself of Tomco and Lakmé. The Thapars are getting rid of all businesses other than chemicals and paper. The RPG group has sold off its tyre cord and razor blades businesses. Vijay Mallya's UB group has shed its telecom, engineering, and petrochemical businesses.

The disease of diversification goes back to the origins of Indian business, to the managing agency system that prevailed during the British days, when a single management oversaw varied business activities—tea, jute, textiles, cement, shipping, etc. The typical British company in India was a managing agency, which raised capital in England and invested it in half a dozen business activities in India. Since managerial talent was scarce, a small group of managers oversaw diverse activities. When the British left, Indian businessmen took over these managing agencies. Meanwhile, the managing agency had become the model for Tatas, Birlas, and other Indian houses. After Independence, the licensing system and inefficient capital markets reinforced diversification. Since a businessman did not decide what he should produce and depended on what licences were available, there was a mad scramble for these, and business houses ended up producing all manner of unrelated products. Although licensing was unique to India, diversification is not. The Japanese zaibatsus and Korean chaebols were similarly diversified. However, the Japanese have realized that the success of Toyota, Honda, Sony, Panasonic, and Toshiba depends on focus. Indian firms are now learning this lesson painfully. Soon after 1991, they went on a spree, forming ventures with foreign companies. These joint ventures had no relationship with one another, ranging as they did from automotive components to fast food and fashion garments. Many of them unravelled after a few years.

Another flaw in most recent joint ventures was that they were hopelessly unequal. The Indian partner was far weaker than his ownership share in the JV. It did not take long for the foreign partner to realize that he was 'carrying' the venture, and he resented the Indian partner taking a free ride. This led to trouble. In a typical venture, the foreigner brought technology or the product and the Indian brought market access—that is, a distribution network and skills in managing labour and the government. This seemed to be a reasonable basis for

collaboration. The trouble began when the Indian partner insisted on (and got) majority equity without realizing the inherent inequality of the situation—namely, that the venture could not exist without the foreigner's product or brand name. The Indian government's bias also encouraged the inappropriate equity structure. After some time, the foreigner discovered the Indian partner's weaknesses—the distribution network was weak or non-existent, government contacts mattered less after the reforms, and shockingly, the quality of the Indian partner's managers was second rate. To be fair, some joint ventures have been successful and many Indian partners over-deliver. However, these are exceptions, and my guess is that of those that survive, a large number will come apart.

Under the circumstances, the best that Indian industrialists should do is to concentrate on learning whatever they can from the foreign partner. These joint ventures represent a window of opportunity to absorb technology and management practices and to upgrade their skills. Historically, India is at the stage where Korea and Taiwan were twenty years ago. These two East Asian nations concentrated on absorbing technology with a passion. 'The joint venture is one of the most efficient ways to learn,' said Anand Mahindra recently. 'It is a membrane for technology to pass between a developed and a developing country, and it is the responsibility of the joint venture to ensure that the membrane is truly porous.' Samsung did not learn as much about making aircraft from Boeing as it did about Boeing's legendary project management skills, which it later applied to its electronic assembly operations. Ownership matters less to Indian society. What matters is that knowledge and skills are transferred to Indians.

Competitive markets are forcing other changes on companies. An important failing of Indian business has been its short-term focus. Companies have invested too little in employees. The lack of attention to human capital begins with lack of attention to recruiting new employees. I recall that when Procter & Gamble used to recruit its trainees at the campuses of the Indian institutes of management, we competed

mainly with foreign companies like Citibank, Levers, and Nestlé for the best graduates. There were few Indian companies—Asian Paints was one of them. Exactly the opposite situation prevails in Japan, where foreign firms find it difficult to get the best graduates from top institutions, such as the University of Tokyo, because of fierce competition from Japanese companies and the prestige and rewards attached to working for a home firm.

If the success of a firm rests on the quality of its managers, why do Indian companies not recruit from the best at the IIMs and IITs? Indian industrialists say that IIM and IIT graduates are not culturally suited for their businesses. If the products of the premier schools are culturally unsuited, the industrialists could have put in place recruitment programmes from other colleges. Their solution to hiring is to 'put a wanted ad'. Mukesh Ambani of Reliance expressed his allergy against the Westernized, 'tie-wallah golf-playing' executive. The issue he should have addressed is why the best products of Indian colleges are reluctant to join Indian companies and prefer foreign ones. The main reason is that the Indian business world is still largely feudal where the owner centralizes decisions. Some owners treat their employees no better than they treat domestics. In fact, I once heard an industrialist refer to his finance manager as a 'servant' within the earshot of his foreign collaborator. Employees feel more respected in the professional environment of a foreign company. Therefore, even when Indian companies are able to hire a good manager, they are often not able to retain him.

The weakness in recruiting is compounded by the lack of attention to training. Companies hire a young person and literally throw him or her into the job. Multinational companies, on the other hand, prepare detailed training plans for their young managers and closely guide them for the first two years. They reward senior managers not only for the results they produce but also for the on-the-job training that they impart to their subordinates. Amiya Kumar Bagchi, director of the Centre for Studies in Social Science, Calcutta, attributes the lack of

attention to human capital to our feudal social structure. 'As a result, the owners are arrogant and the managers are servile,' he says. 'In East Asia, the owner will happily sit down with an employee for a meal. It is this attitude which has helped them succeed, create universal education, and wipe out poverty. India, in contrast, is like the Philippines, which is a relative failure in East Asia because it shares our social structure.'

Indian companies are in a state of transition after the economic reforms. One of the potent effects of the new competitive environment is a mad scramble for talent. Dozens of companies, including Reliance, the RPG group, and Arvind Mills have created outstanding recruiting and training programmes. Some companies are seriously attempting to globalize. A number of examples are available, but I shall illustrate with two. Sundaram Fasteners of Madras quickly responded to the reforms by bidding and winning a contract to supply radiator caps to all General Motors plants in the US in competition against twelve global suppliers. Within six months, it installed a used GM facility from the UK—it would have taken years to do so before the reforms. Now it is electronically linked to all GM plants via its warehouse in Detroit, and it has not missed a delivery in five years. Within forty-eight hours, it can turn around a new shape for a cap. Against a standard reject rate of 150 parts per million, it has achieved six parts per million.

After building the largest pharmaceutical company in India, Ranbaxy made a big push into the international market. It now sells its products in forty-five countries, manufactures in eight countries, including the US and China, and half its total revenues come from outside India. In 1998, its turnover was $450 million and it expects to cross a billion dollars by 2003. It is vigorously engaged in R&D to bring low-priced generic drugs to the global market under the Ranbaxy brand name. It spends 5 per cent of sales on research, making it the second highest spender among all industries in India. Its research recently paid off when Bayer, the German drug company, agreed to pay $67 million plus royalties for the rights to a new

dosage form of ciprofloxacin, a new delivery system of its discovery. Its strategy is based on three advantages enjoyed by Indian pharmaceutical producers: (i) low-cost but excellent R&D scientists; (ii) extremely low manufacturing costs achieved by Indian producers due to tough price controls, which pushed them to continuously lower costs for twenty years; (iii) the experience of reverse engineering of drugs because of low patent protection in India.

These two examples illustrate that Indian companies are capable of acquiring a global mindset. To do so, they have to focus on a single area of competence—Sundaram in auto components, Ranbaxy in generic drugs—and not be hopelessly diversified. Second, they have to initially win in the domestic market and then leverage their economies of scale overseas. Third, they have to be able to capitalize on global trends. Sundaram tapped into the desire of Detroit's automakers to outsource their components rather than produce them in-house. Ranbaxy is taking advantage of the global shift to generic drugs as a way for all societies to contain health care costs. Fourth, they cannot ignore quality even when they are pursuing a low-cost strategy. For this reason, Sundaram was one of the first in India to obtain ISO 9000 rating. Fifth, they must be able to overcome our historic phobia for investing in product development.

There are only three ways that a company can create competitive advantage. It can compete on the basis of superior cost or a superior product or superior service. India's best companies have largely adopted the superior cost strategy. Pursuing a clear-cut strategy is in itself an advance over the past when Indian companies were ad hoc and opportunistic and exported undifferentiated products based on factor advantage. Firms are realizing, however, that to compete as a cost leader does not mean that they can ignore quality. On the contrary, world-class quality is a given for any company that aspires to compete in the world market. It means, however, that on an ongoing basis one does not differentiate oneself on the basis of quality but on the basis of cost.

It is unrealistic to expect Indian companies to become technology leaders. This is not because Indian scientists are not capable, but because Indian companies will take time to mobilize the power of science and become a technology-driven culture. The companies of Korea and Taiwan still do not have a technology edge.

The essential question is whether Indian companies can realistically adopt another strategy besides cost leadership. A cost strategy is vulnerable to exchange rates of competitors and rising labour costs of domestic employees. I find it surprising that Indian companies have not directed their energies to a strategy based on superior service. Not only because it is more enduring, but also because it builds on the proven capability of Indian traders in the competitive bazaar economy. Anyone who has shopped in a saree store or eaten in a Udipi restaurant knows the Indian traders' ability to deliver superior service. Among larger companies, HDFC and Sundaram Finance are good examples of this. Everyone recalls the positive experience of dealing with HDFC for a housing loan. The legendary loyalty of truck customers to Sundaram Finance is based on excellent service.

A strategy based on superior service can be especially powerful where the value added is high. Superior service delivered by highly trained 'knowledge' workers—scientists, engineers, market researchers, lawyers—provides a powerful insulation against competition. Not only can knowledge workers harness the power of information technology, they can also be trained to benchmark their deliverables against competition and against customers' needs. Commitment to this strategy implies that one hires new employees on the basis of their attitude and trains them in business skills. Most companies do the opposite. It is an attractive strategy because it is practically 'free' compared to the other two. Yet, I am not aware of a single Indian company with global ambitions which is seriously and strategically pursuing it.

The competitive advantage of a firm arises from its distinctive capabilities. These capabilities are generally based on the stability and continuity of relationships, which the firm builds with its suppliers, customers, and employees. Its competitive advantage is, thus, the product of history and is not easy to duplicate. It emerges from within the company, from a recognition of its strengths, and is never imposed from the outside by consultants or created by corporate communication programmes. These relationships are uniquely different and the search for generic strategies or recipes for corporate success is doomed to failure.

Creating competitive advantage takes years of painstaking effort and few Indian companies have had the patience or the inclination to do so. It requires the ability of the top management to penetrate into the messy details of the business, without losing sight of the big picture. Most Indian businesses have found themselves hopelessly unequal to this task. Until 1991, their talents and their attention were misdirected by the socialist raj. While they were busy negotiating the shoals of our byzantine bureaucracies, their competitors in other countries were carefully crafting relationships with suppliers, distributors, and customers. Honda, in the 1960s, captured a third of the US motorcycle market in less than five years. It had no great vision; it simply did what it did best—making a simple, inexpensive motorcycle. However, the crucial ingredient in its success lay in its unglamorous attention to building long-term ties with its distributors.

The lesson for Indian companies with global ambitions is that success will not come from merely imitating the successful but from identifying and nurturing their own distinctive capabilities. If there were effective generic strategies or recipes for corporate success then all the companies would adopt them.

Thus, what differentiates a successful company is more important than what it has in common with other successful companies. This is a disappointing conclusion for those managers and companies who are looking for quick, wish-driven fixes. But it is a hopeful conclusion for those Indian companies who are focused on the long term, who are well under way in building a network of relational contracts within and around

their firms, and who realize that success comes not from doing what others do, but from doing what others cannot do.

Can the old Indian companies deliver the goods? The Indian stock markets in 1999 did not think so. The market capitalization of the old family companies on the Bombay Stock Exchange had plummeted to 15 per cent of the total in February 1999. Although the old family houses still accounted for two-thirds of *Business India*'s top hundred companies as measured by sales, in terms of market capitalization forty-five companies had been forced out of the list of the top 100, according to *BusinessWorld* on 22 August 1998. Although the old houses have begun to change, they continue to resist the shift from 'family wealth' to 'shareholder value'. Only a few are comfortable with the idea that today wealth, status, and power do not derive from controlling the management of the companies that their ancestors promoted. It comes from the rising value of their equity from competitive and professionally run companies. Parvinder Singh of Ranbaxy sent the most powerful signal to 'old money' in March 1999 when he announced that his company would pass into the hands of a professional manager rather than to his sons. He was suffering from cancer, and he jolted a number of old houses into realizing that shareholder value is a better way to create wealth.

Most of the debate on the Indian economic reforms has centred on what the government needs to do. Little attention has been paid to what Indian industry and business need to do to respond successfully to the reforms. Clearly, the future of the Indian economy after the reforms increasingly depends on the success of Indian industry and business. The historical performance of Indian business is weak. Certainly, it has not succeeded in bringing about an industrial revolution in the country. Before 1947, it could blame the British Raj; after 1947, it could blame the over-regulated Licence Raj. Now, after the 1991 economic reforms, it has no one but itself to blame.

19

The Rise and Rise of a Middle Class

> The most perfect political community is one in which the middle class is in control, and outnumbers both of the other classes.
>
> —*Aristotle*

It was a rare Sunday afternoon in Delhi's March. The sky was blue, the sun was shining and the quiet breeze sent me on a walk to the Lodhi Gardens on the way to a haircut at Khan Market. Once in the gardens I thought I'd take a nap in the park—actually lie down on a patch of green grass and go to sleep.

I was leaning against a lamp pole by the Bara Gumbad on the Lodhi Road side watching overgrown boys argue over a lbw that turned into a heavy debate on the politics of cricket. I'm not a big fan of the game so my interest flagged. My attention turned to a game of catch played by a middle-class father with his two small sons. Just then the little fellow missed; he ran after the ball and heroically dove in the grass to save it from going in the ditch.

It has been years since I ran deep near the boundary to save a four, but I used to, and the smell of grass recalls it. They say that smell is the key to memory and in my schooldays I would end up smelling a fair amount of grass. I disengaged myself from the lamp pole and headed for a spot in-between but yet sufficiently far from two groups of picknickers. Here I thought I might close my eyes and snooze.

Sleeping in the park in a city is a form of civilization. First, you need a city with enough bustle and clatter to make a person yearn for a calm, green spot. Then you need a first-class park, as Lodhi Gardens certainly is. And finally, you need the right sort of person, one who is capable of dropping his guard and flopping down on the ground and falling asleep with his mouth open and snoring like a yodelling walrus.

The grass behind the Bara Gumbad that day didn't quite work out. I lay down, but couldn't sleep. Perhaps the mass of the Bara Gumbad was too great, or the impending humiliation at the barber's was on my mind. I lay for about fifteen minutes, eyes closed, listening to the passing scene, and then sat up.

I watched the first picnicking family and it was immediately clear that they belonged to the new middle class. They spoke roughly and aggressively. From their talk, I gathered that the family had a flourishing export business in garments. All the adults, including the women, worked hard in the business. I admired the ease with which they talked about their customers in Sydney, Toronto, and Brussels. They insisted on sprinkling their conversation with English words that they did not understand too well. They were newly prosperous. Yet, they were less than a generation away from the village well, dust-raising cattle, and the green revolution in Haryana.

I turned to look at the other, quieter family. Three generations were enjoying the afternoon sun after a tidy lunch. The grandmother watched her young grandson roll in the grass, while her stern-looking husband, from his self-important manner, had probably just retired as a senior civil servant. Their son, an IIT-IIM-trained manager who worked for Levers, was on his way up. They were the old middle class.

The most striking feature of contemporary India is the rise of a confident new middle class. It is full of energy and drive and it is making things happen. That it goes about it in an uninhibited, pragmatic, and amoral fashion is true. It is different from the older bourgeoisie which was tolerant, secular and ambiguous. The new class is street-smart. It has had to fight to rise from the bottom, and it has learnt to manoeuvre the system. It is easy to despair over its vulgarity, its new-rich mentality. But whether India can deliver the goods depends a great deal on it.

This new middle class is displacing the older bourgeoisie—people like my grandfather and father—which first emerged in the nineteenth century with the spread of English education. It had produced the professionals who had stepped into the shoes of the departing English in 1947, and had since monopolized the rewards of the society. The chief virtue of the old middle class was that it was based on education and merit with relatively free entry, but it was also a class alienated from the mass of people and unsure of its identity. The new middle class, on the other hand, is based on money, drive, and an ability to get things done. Whereas the old class was liberal, idealistic and inhibited, the new order is refreshingly free from colonial hang-ups.

We may feel regret at the eclipse of the old bourgeoisie, especially because it possessed the unique characteristic of being a class based on free entry, education, and capability. We may feel equally uneasy that a new class based on money is replacing it. However, this is not a new phenomenon. This has happened repeatedly in all societies, particularly after the advent of the industrial revolution. Whether old or new, the middle class is growing very rapidly in India. If one draws a line from Kanpur to Madras, I reckon that by 2020, half the population west of the line will be middle class. It will take another twenty years for half the people east of the line to get there. By then, 650 million Indians will be middle class, and this will have a major impact on politics, markets, and society.

When India became independent, the middle class was

tiny—around 5 per cent of the population—but we had a clear idea of what our parents wanted us to grow up to be. They wanted us to be nice Indian boys, well-bred, handsome, intelligent, and good at games. We were groomed to be brown sahibs, the rightful rulers of free India. They educated us at private schools. Those who could afford it sent theirs to Doon and Mayo (even when it pinched their pockets). We became good at cricket and tennis and adequate at studies. 'He is a good all-rounder,' was the model held up before us. After school, we went on to Delhi's St. Stephen's College or Presidency College in Calcutta and Madras. A few lucky ones even managed to go to Oxford and Cambridge. We were expected to acquire the basic intellectual equipment at the university, but not to become scholars.

From the 1960s, the path became more competitive and those who could get in chose technical and managerial institutions—the IITs and IIMs. After college, we were ready to join the IAS or industry or the professions—all the pleasant niches for which the older Indian bourgeoisie groomed its young. With secure jobs in our pockets, we were married off to good middle or upper-middle-class girls whom we courted in the gymkhana clubs and in hill stations during our summer holidays. We were ready to become pillars of the establishment and repeat the process with our young. As we prospered in our jobs, we built houses in south Delhi and went to lots of stylish parties where we met our friends, rubbed shoulders with diplomats and enjoyed the wit of the intellectual elite of our land. Could one have a better recipe for the enviably happy life? We had fulfilled the dreams of our fathers. Why then, with all our advantages, do we feel a gnawing pain in the gut? What has gone wrong?

As civil servants we face humiliation daily at the hands of our political masters, whose background and values are alien to ours. We are even willing to bend with the breeze, but it gets intolerable when we have to lie, cheat, and be unjust on their behalf, because we are afraid that otherwise they will transfer us to an unmentionable provincial job. As managers in the

private sector, we meet the same ministers and bureaucrats to get licences and permits. But when we are treated in Delhi as though we are merely a cow to be milked, our self-respect is wounded. When our own school friends in the IAS treat us with suspicion, we feel hurt. Nonetheless, either as civil servants or as company managers, we tolerate the politician because he is an inevitable growth of democracy with which we largely identify. However, it is harder to accept the new monied class. The contractors, the intermediaries, and the pot-bellied sycophants of the ruling party are abhorrent.

Our children are leaving or have left to go abroad and this is another source of discontent. We did not create enough jobs at home because of mistaken economic policies. Our children are forced to look abroad for opportunities—many of them never to return. When friends and children leave, life begins to feel insipid.

The old middle class complains constantly of the decline in our national character. In the abstract, it sounds like a cliché, but when you discover that your batchmate in the IAS is corrupt or that your room-mate in boarding school, who joined the IPS, is now under suspicion for murder in an 'encounter' in Andhra, or that your clerk's wife committed 'suicide' because of a dispute on dowry with her in-laws, then the pain in the gut returns to stay.

Our inner lives are a parody. We have one foot in India, the other in the West, and we belong to neither. We speak a hodgepodge of English and our regional language, the combination varying with the status of the listener. When speaking to a servant or shopkeeper, our verbal brew leans towards the local language; with a peer, we are capable of invoking the purest English. We are alienated from the mass of our people. We mouth platitudes about Indian culture without having read the classics in Sanskrit. Instead, we read *Time* magazine to 'keep up'. We are touchy about India and look to the West for inspiration and recognition.

We are Macaulay's children, not Manu's. Our ambivalence goes back to that day when Macaulay persuaded the British

government to teach English to Indians. Our position is similar to Rammohun Roy's, who had two houses in Calcutta. One was his 'Bengali house' and the other his 'European house'. In the Bengali house he lived with his wife and children in the traditional Indian way. The 'European house', on the other hand, was tastefully done up with English furniture and was used to entertain his European friends. Someone teased him by saying that everything in the Bengali house was Bengali except Rammohun Roy; and everything in the European house was European except Rammohun Roy. The dilemma of today's 'brown sahib' is similar. We can live our hypocritical lives only for so long; ultimately we must question our recipe for the enviably happy life.

The bureaucracy is quintessentially old middle class, and no single institution has disappointed us more. We bought the cruel myth of the 'steel frame'. My grandfather used to say that Britain was not as well governed as India before 1947 because it did not have the Indian Civil Service. Today, our bureaucracy has become the single biggest obstacle to the country's development. Indians think of their bureaucrats as 'self-servers, rent-seekers, obstructive, and corrupt,' says Madhav Godbole, the former Union home secretary. Instead of shepherding the economic reforms, the bureaucracy is responsible for their faltering pace. The way it is going it looks as though it is the bureaucracy versus the rest of the people.

Compare this to the situation in China. Mr Sahgal, managing director of Phillips Carbon Black, visited China last year to set up a plant. A senior Chinese official met him at the Shanghai airport. It was Sunday but bureaucrats came to see him at his hotel. The land officials promised him a plot within thirty days. The tax officers in their uniforms and epaulettes patiently explained their seven-page income tax code and three-page excise code. The head of the electricity board committed to laying a two-kilometre transmission line in thirty days. The mayor came by in the afternoon to take him in his car to Wuxi, 200 kilometres away, a distance they covered in two hours on the new superhighway. On follow-up visits, the mayor again

came to Shanghai to escort his operating managers to Wuxi. In contrast, Phillips Carbon Black took nine months and a half dozen bribes to acquire land in Durgapur and six months to get an electricity connection, with a full-time person chasing after the officials.

It is widely accepted that East Asian bureaucrats played an important role in engineering their economic miracle. Why did they succeed and Indian bureaucrats fail? A Korean businessman told me that 'man for man, your bureaucrats are smarter'. But that may be part of the problem. 'Whereas your bureaucrat is a know-it-all, who prejudges peoples' needs and dictates to them, ours listens to us and forms a collaborative relationship with businessmen.' Second, East Asian bureaucrats are specialists, who are not shifted from job to job. Thus, they acquire expertise and commitment. Even in the UK, you join the Treasury, not an amorphous civil service. Third, East Asian bureaucracies are smaller, with shorter lines of authority, and this makes for quicker decisions. Fourth, when you bribe, your work gets done; in India, even after a bribe you are never sure.

What is the answer? Certainly, it is not to abolish the permanent civil service. Every country needs and has one. The real solution is to change work processes and procedures and reward bureaucrats for results and not for adherence to process. Mr Bindra in Haryana should be rewarded for delivering a world-class stadium in Mohali and not penalized with a CBI enquiry. To achieve result orientation, we should downsize the bureaucracy, decentralize decisions, give more autonomy to officers, and delegate authority to those lower down. Second, we should relentlessly invest in training civil servants. We should empower them with MBO and TQA skills and educate them in the economics and values of a liberal economy.

Proud laughter from the garment exporters diverts my mind from uncomfortable thoughts about the bureaucracy and old middle class. Certainly, this new, innocent, middle-class family is only half-educated; they proudly show off their new riches and they laugh too loudly, but let's face it, they are our future. The old middle class is not going to deliver the goods.

The new bourgeoisie, represented by these garment exporters, do not have our false sense of national grandeur; they are not worried about phantom external interferences with our national sovereignty; they don't need to engage in Pepsi-bashing in order to feel Indian; they want politicians and bureaucrats out of economic life; they want India to open up and join the world; they want the latest technology and our rupee to be convertible; in short, they want India to become and behave like other successful nations.

The new bourgeoisie is highly visible. You can recognize the man a mile away in a safari suit with a VIP briefcase in one hand, and glossy magazines in the other. The woman in her Ruby Queen polyester saree alights from her new red Maruti to shop for the latest gadgets from BPL or Videocon. Their children in Arrow shirts and Colour Plus pants are found in Nirula's sipping Pepsi with a pizza, or at night dancing awkwardly at Ghungroo. They go on holidays to the new resorts springing up across the country, carrying a matched set of Skybags. But when they reach Goa, instead of going for a long walk on Bogmalo beach, you find them packing the video room.

The new middle class is free from the inhibitions that shackled the older bourgeoisie. It doesn't seek endorsement from the West: what works is good. It is non-ideological, pragmatic, result-oriented. It is here to stay. The old bourgeoisie had a liberal, humanistic outlook which was tolerant of ambiguities and shy of certainties. Self-government and economic freedom were clearly its political objectives. Since the English language and education was the only hurdle for entry into the old bourgeoisie, people came from various backgrounds. By and large, opportunities were open to all, although the upper castes were the first to seize them. Once the new elite was formed, it tended to close ranks. Slowly after 1947, however, it lost vigour and started to decline. Manners became more important than content. How you spoke mattered more than what you said; your calligraphy was valued more than your thoughts. After Independence, a determined effort

was made by the business class to acquire respectability as an extension of its financial power. However, the old bourgeoisie in the bureaucracy and in politics checked these ambitions with controls, a crippling system of taxation, and legislation like the MRTP Act.

When I was growing up the middle class was tiny. It began to expand in the 1950s. Those who were newly admitted had a triumphal feeling, but they also suffered constant anxiety that they might slip down into the labouring poor. The early entrants came up through government jobs—they were clerks and peons in offices, carrying messages and files, bringing tea and coffee, keeping citizens away from officers. As the government began to produce steel and other goods, they got new jobs as factory labour and supervisors in the public sector. In the '70s with the green revolution, the children of farmers in Punjab, western UP and other pockets of prosperity, such as the sugar belt in Maharashtra, seamlessly entered the middle class. The children of labourers who went to the Middle East during the oil boom were similarly integrated.

A person had arrived in the middle class when he did not have to do physical labour. Another conspicuous sign of arrival, according to Ashok Desai, the economist, was that you wore something on your feet, either sandals or shoes. The labouring classes had usually gone barefoot. Today, this is no longer true. The lower classes now wear PVC sandals and clothes of synthetic fibre. Today's distinctive class marker is housing, says Desai. The middle class live in pucca houses of brick and cement (while the lower classes live in urban slums in the cities or in kuccha homes in villages). They send their children to the new English-medium schools and second-rate colleges, read film magazines and go on holidays in video coaches. They ride on scooters and buy mixies to grind chillies. India is now the world's largest market for mixies and second largest for scooters (after China).

In the 1980s the middle class doubled as the economic growth rate rose to 5.6 per cent. Marketing professionals were amazed by the extent of rural prosperity. As the rural family's

expenditure on food dropped from roughly 68 per cent to 55 per cent of its income, rural demand for consumer products multiplied. Soaps and detergents in villages grew 20 per cent a year through the '80s while the urban market grew only 5 per cent. By 1990, the rural market for washing products, for example, had become 55 per cent of the total compared to 30 per cent in 1980. With rural prosperity, India became the world's largest consumer and producer of tractors. The spread of TV was a cause as well as an effect. In the end, millions of rural families joined up with the national middle class.

In the '90s the economic growth rate rose beyond 7 per cent and this gave another boost to the middle class. The National Council of Applied Economic Research (NCAER) systematically tracks the middle class based on periodic national sample surveys. Its focus is ownership of consumer products, and it prefers the term 'consuming class' to the fuzzier 'middle class'. It estimated in 1998 that the consuming class was 32.5 million households. Since there are roughly five persons in a household, this means that the middle class was 169 million or 18 per cent of the population. NCAER's consuming class has an income between Rs 45,000 and Rs 215,000 and typically owns a TV, cassette-recorder, pressure cooker, ceiling fan, bicycle, and a wristwatch. Two-thirds of the 'consuming class' own a scooter, colour TV, electric iron, mixie, and a sewing machine, but less than half own a refrigerator. (Of course, the penetration of TVs, bicycles, radios, and fans goes far beyond the middle class—TVs are in over 62 million homes, bicycles in 80 million, wristwatches in 125 million, and fans in 50 million homes.) Most strikingly, the consuming class appears to have tripled in ten years. NCAER has projected the consuming class to reach 91 million households by 2007 or 450 million people. That may be too optimistic, but it is easier to imagine that the middle class could become 50 per cent of the population west of the imaginary line linking Kanpur and Madras by 2020, and east of the line by 2040.

Thus, we start off the twenty-first century with a dynamic and rapidly growing middle class which is pushing the politicians to liberalize and globalize. Its primary preoccupation is with a rising standard of living, with social mobility, and it is enthusiastically embracing consumerist values and lifestyles. Many in the new middle class also embrace ethnicity and religious revival, a few even fundamentalism. It has been the main support of the BJP and has helped make it the largest political party in India. The majority, however, is too busy thinking of money and is not unduly exercised by politics or Hindu nationalism. Their young are aggressively taking to the world of knowledge. They instinctively understand that technology is working in our favour. Computers are daily reducing the cost of words, numbers, sights, and sounds. They are taking to software, media, and entertainment as fish to water. Daler Mehndi and A.R. Rahman are their new music heroes, who have helped create a global fusion music which resonates with middle-class Indians on all the continents.

Cinema, however, continues to be its great passion. It affirms the middle-class world. It creates its values, nourishes its soul and is the source of its dreams and role models. The markets ring to the sound of the latest hits, and it is a common sight in provincial towns to see young men (and women) dressed in the latest 'film fashions', strutting about the street, imitating the *chaal* of their hero while humming his latest song. Films are just as popular today as they were in the 1950s, although one sees them more often on television. They still provide the defining image. But there is a difference. The hopes and the dreams of the '50s and '60s are gone. Films today are faster paced. They have bigger budgets. The dancers have more pelvic thrusts. The villains are more violent.

When I was young, Guru Dutt and Raj Kapoor had touched a sympathetic chord with people. With heavily charged sensuality, their films summoned up all our romantic dreams. They were the dreams of the new nation. The middle class was filled with hope and it thirsted for romance. It had put up with the independence struggle; it had suffered the tragedy, the bloodshed and the dislocation of the Partition; now, it wanted the romance of freedom. It identified with Guru Dutt's search

for the pure and the innocent, unscathed by the compromises of society. It was drawn to his theme of unrequited love, which led to self-inflicted suffering. It put a bit of itself in each of his films. It contrasted the innocence of its new government with the cynicism of the old global order. It literally believed in the Mughal gardens of the celluloid world, complete with bumblebees, jasmine flowers and torpid breezes. It believed in them as it believed in Nehru's dreams. Today, the dreams of Guru Dutt are gone, just as its post-Independence hopes have died.

Today's middle class has no illusions. It accepts both Mandalization (and the rise of the lower castes) and Hindu nationalism (with the ascent of the BJP). It has no clear ethos beyond money and the here and now. It has no heroes other than cricketers and Bollywood stars. The soul has gone out of the old merit-based middle class, and an aggressive capitalism has replaced the socialist idealism of the youth. The ones who are setting the pace today are the PR boys, the new media elite from Zee and Star TV and the whiz-kids from Morgan Stanley and Kotak Mahindra.

On a recent visit to Bombay, I met two boys in their early twenties. I had known their father many years ago. We stopped to watch a tall building at Nariman Point. 'So, this is it!' said one of them to the other, filled with awe. 'This is it,' replied the other, looking up with reverence at the office of Dhirubhai Ambani. 'He came from nowhere and went up and up. They expected him to fall, but he refused and he built instead the largest company in India.'

The two young men did not have business backgrounds. They came from an old Brahmin family from Pune and they were paying homage to their hero, who had created the magical Reliance Industries. Eighty years ago, their heroes would have been the nationalists Gokhale and Tilak. Fifty years ago, they would have been Gandhi and Nehru. Today they are business tycoons like Ambani and Azim Premji. It is a sign of our changing times.

The young men took me to their home in Bandra. They also had a teenaged sister, who had just finished high school. Over dinner that evening, she gave me her recipe for the ideal life. 'First, I shall go to IIT, then to IIM, and then get a job in consulting or financial services. Eventually, I want to own and run my own company.'

'Have you thought of doing arts in college?' I asked. She looked at me as if I needed to have my head examined. 'Arts is for duffers,' she said. 'It's for those who can't get into science. Besides, what is the use of poetry?'

I gently suggested that business leaders of tomorrow needed to have vision. They had to build high-performing organizations. In order to achieve global competitive advantage they had to recognize change and innovation, and promote sustained investment in human skills. The lessons of history and literature might better prepare a young person for those challenges.

'Arts subjects aren't high scoring,' she said dismissively. 'And I don't want to spoil my CV.' I suggested that she would have to do a lot of science at IIT. Did she like science?

'You just have to memorize a bunch of facts. I have a good memory, fortunately.' She was obviously confident and good at studies, but I was distressed by her mindless approach to her education. The fault lay partly with her parents and her teachers. No one had told her that science was not about 'a bunch of facts' but rather about learning to think more exactly. Scientific education meant the implanting of a rational, experimental habit of mind. As I was leaving their house that night, I felt ambivalent. All three youngsters were self-assured and optimistic. They were confident about the future. Yet, they looked at education as slogging work.

It is a popular pastime with the old middle class to grumble about the new rich and the decline in values. They complain incessantly, especially after the reforms, that the young are self-centred and motivated only by greed. They speak of a 'crippling ideological barrenness which threatens to convert India into a vastly unethical and insensitive aggregation of wants'. They believe that naked self-interest of the new middle class has subverted the idealistic goal of an egalitarian society,

which was part of the Gandhi-Nehru consensus of their own younger days. I feel differently. I believe that the young are no less virtuous today. Nor is the new middle class any greedier. (It is less well-educated, certainly, but then its children will be better educated.) The chief difference is that there is less hypocrisy and more self-confidence. Self-interest has always been the basic motivator of individuals and classes. In denying this basic truth about humanity we embraced treacherous ideologies and failed economic policies. We certainly do not want to repeat those experiments.

20

Modern vs Western

It is only the modern that ever becomes old-fashioned.

—*Oscar Wilde*

Our continuing inability to distinguish between the 'modern' and the 'Western' is surely the cause of some of our grief. If we could only accept that a great deal of modern Western culture is no longer the property of the West but a universal, critical way of thinking which belongs to all rational, civilized human beings, we would not suffer quite as much. We would conserve our energy for better things rather than waste it on *swadeshi*, *Hindutva*, national language debates, US-bashing, MNC-baiting and other futile activities. The debate between modernization and Westernization, begun in the early nineteenth century by Rammohun Roy, continues to rage in India today, especially with the ascent of the Bharatiya Janata Party (BJP). The verbal confusion makes us ambivalent about foreign trade and investment. It makes us clamour for protection in a globalizing world. It slows our responses to the economic reforms and delays our ability to create a competitive economy. At the root of the issue is a legitimate fear of the loss of Indian tradition, culture, and way of life. But the fear is often a symptom of an

inferiority complex apropos the West, especially with the older generation that is in power.

Ironically, some of our nineteenth century intellectuals understood this distinction well and used it to critically examine our tradition and shake off the institutions and practices which had deformed its spirit through centuries of stagnation and superstition. Equally, the younger generation today seems self-confident and pragmatic, and does not suffer from colonial hang-ups. My neighbour's daughter, for example, is an exporter and a daily participant in the global economy. No matter what her customers' nationality or where they are located, she receives and answers queries in English, quoting her prices in dollars, while employing Windows software. She does not feel diminished, because 'English' is also the national language of England, 'dollars' is the national currency of the US, or that 'Windows' originated in Seattle. In her functional world, English is the universal language of commerce, dollars the currency of global trade and Windows is an enabler of communication.

When I was twelve, my aunts used to talk endlessly about our attractive neighbour in middle-class Delhi. 'You mean you don't know her? She is such a modern lady—she smokes, she drinks, she even dances with men.' After a year we moved and left our neighbour behind, but I grew up with a wrong conception of the 'modern'. To my aunts, 'modern' was a derogatory word, meaning someone 'Westernized', with false and superficial values compared to our traditional, God-fearing ways. My aunt's usage was not unusual. I came across an advertisement in the *New York Review of Books* in 1965 about an 'ardent novel, available only by mail'. It went on to describe the book 'as the story of a *modern* American marriage'. By 'modern', the advertisement suggested something not particularly agreeable—as having to do with 'the ambition, aggression and infidelity of women'.

In college, I discovered that 'modern' was not necessarily something negative or Western. The word as we use it today originated in nineteenth century Europe when dazzling changes occurred in Western society. Economies became industrialized,

nation states came into being, social democracy arose, national bureaucracies emerged, and the world saw the beginnings of mass society. In trying to make sense of all these revolutionary changes, historians concluded that they were inter-connected. For lack of a better word, they called it 'modernity'. Moreover, they linked these changes to the broad acceptance of a set of values and institutions which they termed 'modern'. The values had flowered in the eighteenth century Enlightenment and the French had fought their revolution for 'liberty, equality, and fraternity'. Among the values were also individualism, rationality, a secular (non-religious) temperament, the rule of law (rather than loyalty to individual rulers), representative government and faith in the market economy. Underlying these beliefs was an optimistic feeling that man's condition could be improved.

At the time of our Independence—despite Gandhi's hesitations—there was a consensus among educated Indians that we had to become a modern society in order to succeed. We had to build a strong nation state and have a competent bureaucracy to administer it; we had to be secular in order to preserve communal peace; we had to raise the lower castes in order to promote social democracy. We had to be socialist in order to have equality; we had to be democratic with universal franchise so that there could be true liberty. To make all this happen, the values of modernity were enshrined in our Constitution in 1950.

The '50s were special in our history because the educated middle class actually believed in these modernist values. It amazes me that many in the middle class genuinely thought that we could better human society. Thus, the year 1950 forms a dividing line between our virtually static society of the previous thousand years, when the intelligentsia concerned itself primarily with its own individual nirvana and spiritual enlightenment. Beginning with Rammohun Roy in the early nineteenth century, and climaxing with Mahatma Gandhi's nationalist struggle and Independence, we gradually came to believe that to be genuinely modern we had to be concerned with improving society. After Independence, our ruling class

attempted sincerely to practise these ideals, at least for a short while.

My uncle in Delhi took up my aunts' refrain. My mother's brother-in-law used to remind my parents that we were growing up too Westernized. The problem, he said, was with our schooling. We were losing touch with our culture. My parents didn't know quite what to do, until our neighbour, my father's boss, offered to teach me Sanskrit one day. My mother jumped at the idea. Thus began my Sunday morning lessons at Handa Saheb's home. For the first half-hour, I used to try to memorize a shloka from the Bhagvad Gita; during the second half-hour, he instructed me on the meaning of the shloka. I hated having to memorize the verses, but I enjoyed listening to his stories, especially about the battles of the Mahabharata.

The success of Western man, Handa Saheb used to tell me, was due to his devotion to human reason. Science and engineering—he was an engineer, like my father—were the result of subjecting the problems of the physical world to the test of reason. As a result, the West had made enormous progress and gained material prosperity. However, material progress wasn't everything, he said. Excessive devotion to reason had turned Western man agnostic and made him lose touch with his spirit. Eastern man, on the other hand, retained the 'spiritual' in his everyday life. Even highly educated and successful Indians in Western professions continued to be drawn to the spiritual life. He referred to my father, and many of our neighbours and friends. A man's life was not complete unless it combined reason with the spirit. The Gita, he said, offered the right combination for living the ideal life.

Handa Saheb used to talk about three kinds of knowledge: knowledge of the world, of the self, and of God. Knowledge of the world came through reason and the physical sciences. Knowledge of the self came partially from psychology and the social sciences, and the West could teach us something about this as well. But for the knowledge of God one had to turn to the Gita, he said. The Gita taught that knowledge from books was not enough—it had to be combined with action and it had to be experienced. Right action was desireless and selfless, that is, it was an act performed with detachment, without thinking of the reward or the benefits of the action. One acted from a sense of duty and not because it suited one. The knowledge of God came also through the experience of meditation. The ideal life for the modern Indian, he said, combined the spirituality and wisdom of the East with the rationality and technology of the West. 'What we now need in India,' said Handa Saheb, 'is to create the industries based on the science of the West while retaining our spiritual tradition.' This was our national project. 'So back you go to memorizing those shlokas!'

Many years later, I thought about my lessons with Handa Saheb. The idea that my father's boss should give me his Sunday mornings meant something. It seemed the most natural thing at the time. My father and Handa Saheb were typical of educated Indians of the time: they had a spiritual dimension. I found that even the most agnostic Indians, who had contempt for India's superstitions, were drawn to religious and philosophical issues. The notion of Indian spirituality is, thus, not a myth. As I think of myself, I went to college initially to study engineering. Then I shifted to economics, but I ended up with a degree in philosophy because that is where I thought I might find answers to the great questions.

Nehru was our chief modernizer. His elegant autobiography and his unique interpretation of India's past testified to his faith. For the first seventeen years of free India, he got the chance of a lifetime to practise these ideas and to transform India. He called his approach 'a third way, which takes the best from all existing systems—the Russian, the American, and others—and seeks to create something suited to one's history and philosophy'. The third way tried to combine the growth of capitalism with the equity of socialism without the violence of communism. In the end, the third way failed. Even before Nehru died in 1964, we had begun to despair. We were getting neither the dynamic growth of capitalism, nor the equity of socialism. We were not making significant impact on mass

poverty. We began to wonder whether India could modernize without a violent communist revolution. A modest growth in income was being virtually neutralized by a demographic explosion as population growth began to rise from 1 per cent in the first half-century to 2.5 per cent. Corruption had begun to grow and was becoming ubiquitous, and discipline in public life was plummeting. Reality had begun to catch up and facts began to diverge from our modernist ideals.

Nehru may have been a great modernizer, but he was a poor manager. He had no patience for organization, implementation, and detail. More than policies, it was their administration that failed us. It was all very well to proclaim the ideas of the French Revolution, but it was apparent to everyone that 'liberty' was deteriorating into indiscipline, an all-powerful bureaucrat-political class was rising in the name of 'equality' for the poor, and fraternity existed mainly between the giver and taker of bribes. The unions, especially in the public sector, were becoming all-powerful, and it was increasingly difficult to administer the country. The symbol of this decline was the Congress party. A stronger manager (Sardar Patel, possibly) might not have allowed this to happen. Socialist ideals need not have degenerated into the Licence Raj. If care had been taken to monitor performance, periodically assess the impact of policies, remove roadblocks to effectiveness—all the things that a good manager does in the course of a working day—things might have been different. Policies could have been corrected early. Unfortunately, Indira Gandhi compounded the problem.

Nehru had counted on the 'steel frame' of the Indian Civil Service to ensure efficient implementation. It let him down badly. It had been created by the British Empire to keep law and order and collect land revenue. It was not up to the task of developing and modernizing a backward society. Economically, it was illiterate. It piled up control upon control and created an economic monster. In the end, it is difficult to tell whether it was the policies or their bad implementation that failed us. I believe it was more of the latter. Nehru's main preoccupation

was foreign affairs and his place in the world and in history. It was not development. He insisted on being his own foreign minister, which trapped him in the minutiae of running the foreign department. He did not delegate well but felt compelled to do everything himself. Michael Brecher, who observed him closely for many years, wrote, 'His attention to trivia is startling for a man in his position.' If Nehru had got his priorities right—if he'd been hungry for development—and had been a better manager, he might have been able to modernize our attitudes and institutions in the best sense of the word.

It was at Harvard that I had my first brush with modernization theory. Although I was not a student of sociology, Professor Talcott Parsons of the sociology department was a pervasive intellectual presence, and no one could escape from his ideas. Parsons and the modernization gang struck me as the late children of the Enlightenment with their ample faith in progress. In typical American fashion, they were filled with a naïve belief that only a modern society could be a good society. They felt that as a society modernized, it brought rationality to day-to-day decision making; gradually, it undermined feudal ties and restored dignity to the individual; as it industrialized, it became more prosperous and more equal; finally, it became freer with democracy and the rule of law. Like development economists, sociologists were an optimistic lot in the 1950s and early '60s. They were excited by the prospect of poor, traditional societies becoming modern. Today, scholars are much less certain that they understand how modernization affects traditional societies, or if its consequences are necessarily benign. They hesitate in saying that the United States, the first 'modern society', represents the direction in which other societies should be moving.

Although Mahatma Gandhi took modernity to the masses, he suffered deeply from the dilemma that continues to afflict many educated Indians. He used the railways and the telegraph vigorously, but he hated them. He linked Western technology to colonialism and regarded it as a tool of enslavement. He could not reconcile himself to the idea that Western technology

was a rational approach to solving universal problems, and its products, once created, were the universal property of all human beings. He felt that modern, urban man had become dehumanized and a victim of machines, and he proposed an alternative model of development based on self-sufficient village communities. Nehru thought his scheme hopelessly utopian. In October 1945, as freedom and self-rule came nearer, Gandhi wrote to Nehru: 'The first thing I want to write about is the difference of outlook between us . . . I am convinced that . . . sooner or later the fact must be recognized that people will live in villages, not in towns; in huts, not in palaces. Crores of people will never be able to live at peace with each other in towns and palaces . . . While I admire modern science, it should be reclothed and refashioned aright . . .'

Nehru, on his part, decided that it was the time to be honest and not fudge the issue as he had done all his life. He replied from Anand Bhawan: 'I do not understand why a village should necessarily embody truth and non-violence. A village, normally speaking, is backward culturally and no progress can be made from a backward environment. Narrow-minded people are much more likely to be untruthful and violent . . .'

After this last effort to recreate the India of his dreams around idyllic villages employing 'appropriate technology' Gandhi did not take the issue further. Nehru was now free to pursue his plans to build a modern India of socialist planning and heavy industries, based on Western science and technology. I believe that Gandhi was wrong in rejecting modern civilization, for it was a rejection of the tools of self-defence. Gandhi's legacy and our ambivalence towards 'modernity' continue to afflict significant sections of our society.

Many Indians wonder if Japan is a possible model for us. The Japanese seem to have been able to adopt the modern institutions of the market, and to transform their ancient and feudal society into a competitive, performance and education-based meritocracy. They also seem to have done it without giving up some of their traditional family duties or their ancestral moral emotion of 'losing face' and 'public shame'.

No one reads Arthur Koestler any more. But in the 1940s and '50s Koestler was a powerful intellectual presence. He visited India and Japan and punctured the myth of Eastern spirituality in *The Lotus and the Robot*. The Indian government was so put off that it banned the book—but only after everyone who was going to read it had read it. Koestler wrote much nonsense in the book, but there were great moments of insight as well. In it, he compared India and Japan—'the most traditional and the most "modern" among the great countries of Asia'. Koestler found that India and Japan had similar social structures, based on the family with its clan extensions and a caste hierarchy. In both societies, the old sought respect from the young; the male dominated the female; pupils were meant to venerate their teachers; conformity was valued more than individuality. Both approached Reality intuitively rather than rationally and empirically.

Koestler also noted important differences. Japan's caste system was fluid; India's was rigid. A Japanese commoner could pass into the Samurai class by adoption and marriage. Rich moneylenders often bought Samurai status for their sons by marrying them to the daughters of the Samurai during the Shogunate. When the feudal economy changed into an industrial economy, the new entrepreneurs and the zaibatsus became the adopted sons-in-law of the feudal state. In India, inter-marriage and even inter-dining between castes were unthinkable, especially in the villages. This is because caste was sanctioned by religion and was part of one's dharma. In Japan, caste was a matter of social hierarchy, to be dealt with pragmatically. In India, authority had a religious character. The guru imparted spiritual darshan by his presence; the sensei imparted wisdom, but it was of a worldly nature.

The Indian was careless in dealing with society but careful in dealing with the deity. In Japan, it was the reverse. The Japanese nonchalantly clapped his hands at the Shinto shrine to attract the attention of the gods, but in matters of social etiquette he was punctilious. He knew thirty-five ways to wrap a gift parcel, and his worst tragedy was to lose face in society.

The Indian was full of religious anxiety; the Japanese worried about prestige. The Indian thought that sex is only for procreation; the Japanese knew that sex is also for recreation. The Indian was consumed by guilt over masturbation; the Japanese thought it a casual pleasure, almost like smoking. The Indian woman was a temptress who sapped a man's strength; the Japanese woman was a provider of manifold pleasures. The Indian child was deluged with affection and his education started late and remained lax. The Japanese child was subjected to strict social conditioning from a very young age.

Koestler's insights have implications for national competitiveness. Japan's secular spirit may explain, for example, its love affair with technology. Indians, in contrast, are less curious about how the world works. Indian social hierarchy was more rigid than Japan's, and this may explain why Indians are poorer team players. Japan's fluid caste system made it easier for the ascent of the merchant class during the Meiji times and helped create a social revolution. India is experiencing this social revolution only now, after the economic reforms and after fifty years of practising democracy.

Japan, despite its present economic troubles, is regarded as a great nation capable of defining the future of the world. Yet, many contemporary scholars who share Gandhi's scepticism about modernization, increasingly ask about the price that Japan has paid for its success. They wonder whether the Japanese salaryman, who has enjoyed a dramatic rise in his standard of living since the war, is not losing touch with his traditional strength, and whether his prosperity is not eroding the very conditions of his success.

Robert Bellah, a student of Talcott Parsons at Harvard in the 1950s, attempted for Japan what Max Weber had done for the West. He examined the cultural roots of modern Japan and the relation between religion and the rise of industrial society. Weber had suggested that the industrial revolution came first to northern Europe and North America because they were Protestant and had an ethic of individualism, austerity, and

hard work, particularly among their entrepreneurs. The countries of southern Europe and Latin America, in contrast, did not have these virtues to the same extent because they were Catholic, and they remained laggards. In a similar fashion, Bellah hypothesized that Japan's success had its roots in its culture and religion, which instilled loyalty to the family, the company, and the state. It made the Japanese hard-working, socially disciplined achievers. Subsequent events proved Bellah right, for between 1960 and 1990 Japan achieved miraculous and sustained growth, making it an economic superpower.

Thirty years later, in the mid-'80s, Bellah brought out a new edition of his book. Instead of gloating, Bellah questioned, in a new introduction, if Japan had not paid too high a price for its success. Certainly, he found that Japan was the most effectively administered society in the world; Japanese bureaucrats were dedicated and efficient—nowhere more true than in the Ministry of Trade and Industry, the darling of India's BJP ideologues—who had successfully used credit and information to make the Japanese entrepreneurs respond to changing international markets. But Japan had not become 'modern' in the way that the sociologists had hoped. It had not developed a universalistic ethic that respected the dignity of each individual. The Japanese were still closely tied into groups that demanded their loyalty and did not exhibit sympathy for outsiders. Neither had Japanese women made much progress in their quest for equality.

Bellah believed that rapid growth threatened traditional Japanese life. The family home used to contain a garden, no matter how small, that conveyed a sense of the seasons and of nature. Now the Japanese lived in apartments and TV dominated the living room; the children were cut off in their own rooms where they studied day and night. Fathers were strangers who travelled vast distances between home and work. Ties to the 'home village' and its shrine were broken, and so was the harmony, the central tenet of Japanese religion. Although the surface of life was pleasanter in Japan than in most societies, the landscape was being ravaged. The biggest

weakness of his book, Bellah confessed, was with modernization theory itself. He had failed to foresee that wealth accumulation might not necessarily lead to the good life, and might, in fact, undermine the very conditions of a stable society. Parsons had assumed that individualism was inevitably linked to modernity. The Japanese experience made this link less self-evident.

The 'pathology of modernization' has many takers in India. They range from Ashish Nandy and other academics to the doomsayers of the BJP. They never tire of reminding us about the evils of modernity. The academic climate has changed since my undergraduate days, and our modernity project is one of its biggest victims. It is under heavy attack by Western and Eastern academics. In the 1950s and '60s everyone was agreed that the Third World had to develop and transform its societies from traditional to modern. Today we are less sure, partly because no one is quite certain what constitutes modernity. The historical experience of the twentieth century, moreover, has raised uncomfortable questions. The Soviet Union and fascist Germany industrialized without democracy. The Far East became industrial and prosperous without individualism. The bureaucracy in India, far from promoting development, became its greatest obstacle. With modernity, reason was supposed to displace religion but, in fact, America has witnessed a great religious revival in the twentieth century. (Europe, too, had witnessed a similar revival in the nineteenth century.)

David Washbrook, a historian at Oxford, has recently posed other problems. Modernity was supposed to have arisen first in the West, become a universal ideal, and then spread around the world. However, Washbrook points out that the historical roots underlying the West's road to modernity existed previously in the Asian societies of China, India, and Islam. Formal rationality, which gave birth to modern science, was a part of the Sanskrit and Arabic cultural universe long before it came to the Anglo-Saxons. Commerce and the money economy, which led to the rise of modern capitalism, existed in the Asian societies before medieval Europe. Property and class relations, similarly, were prevalent in them. Washbrook shows that pre-colonial Indian society demonstrated a fair amount of individualism in the Brahminic ethic and the Bhakti movements. There is also evidence of equality in the kinship systems and temple sects. He concludes, like Edward Said, that modernity at its root is an ideology of Western dominance and not a scientific phenomenon.

For several years now the post-Confucian hypothesis has challenged the standard concepts of modernity and has enjoyed a certain vogue. Despite the recent problems in the Far East, the hypothesis has had many takers. It argues that the economic miracles in Japan and in East and South-East Asia are best explained by Confucian values. A positive attitude to the world and its affairs, a sustained lifestyle of discipline and self-cultivation, respect for authority and order, frugality, and an overriding concern for stable family life—these are the major Confucian values, which have spread through education in the Far East and account for its economic success.

There is also an intriguing corollary to this hypothesis. It argues that 'as Buddhism crossed the Tibetan plateau and the great Himalayan passes, it underwent a profound transformation, changing from what was perhaps the most world-denying religion in human history to an emphatically world-affirming one'. Although there was already some degree of world affirmation in Mahayana Buddhism in India, it was really in China and in the Mahayana Buddhist countries of East Asia that nirvana was consistently located in this world. Hence, we often hear in the Far East that nirvana and samsara are one and the same, or that the 'true body of Buddha, the dharmakaya, is in this world as we know it empirically'. If the Confucian hypothesis and the Chinese Buddhist corollary are correct, then it certainly spells bad news for the prospect of rapid economic growth and modernization of India. It means that we cannot easily transfer their lessons to India and the great Himalayan passes remain an insurmountable barrier.

In the early part of this century, ironically, Confucianism had a bad odour. Chinese intellectuals thought that the root of China's backwardness lay in her cultural traditions, especially

in Confucian values. Not surprisingly, they vigorously attacked all aspects of Confucianism. Max Weber wrote in *The Religion of China* that China's culture and religious tradition was deeply uncongenial to modernization. He explained that its ethic hampered economic growth because Confucianism placed the scholar at the top of the social hierarchy and alongside him the government bureaucrat. It emphasized a chain of loyalties beginning with filial piety and extending upwards to subservience to government. Weber did not think that such a rigid, feudal order would promote capitalism, which was innovative, individualistic, and destructive of past traditions. I think we can say today, based on recent experience, that Weber was simply wrong. Equally, the post-Confucians have overstated their case and they have bit the dust in the recent Asian economic crisis.

Whatever name we give to the ethic—Protestant, Confucian, Marwari—the fact is that certain values seem to promote economic development. We sometimes think of them as 'middle-class values'. They are hard work, education, savings and investment for the future, and the ability to cooperate towards a common objective. Professor Rod MacFarquhar of Harvard recently rebuked the proponents of Confucianism, (especially of the Singapore variety) for trying to create an exclusive club. 'There is no difference between the entrepreneurial dynamics of certain Indian merchants and the Chinese merchants in South-East Asia,' he said. 'I am not sure that a religion which preaches rejection of the world necessarily implies one cannot have entrepreneurial spirit. In fact, Hinduism is essentially about individuals. The individual has to decide whether or not in this life he performs acts which force him to a worse rebirth in the next life.'

I agree with Professor MacFarquhar. I also believe that cultural factors are of limited use in explaining economic performance. The success of modern capitalism in the Far East is on account of good economic policies and practices, and these can be transferred. The Far East countries achieved and sustained high growth rates because they efficiently employed

their resources—they emphasized labour-intensive manufacturing for export; they vigorously educated their population; their governments intervened to build competitiveness and to correct distortions. In India, by contrast, government policy created distortions. It made scarce capital cheap, labour expensive, overvalued our exchange rates, and reduced competitive pressures. Our economic reforms have begun to eliminate some of these distortions, and we have begun, in effect, to transfer some elements of the Far East's success. However, we have not yet begun a serious reform of our educational system, which more than anything is capable of delivering equity with growth. Hence, we ought to focus more on economic and educational reforms and worry less about culture.

As to the 'pathology of modernization', I believe that the BJP and the academic critics of modernity fail to realize that modernization offers the only opportunity for the majority of our people to raise themselves to a decent standard of living. To eschew modernization is to condemn the masses to degrading poverty and the injustices of caste in our traditional society. It is easy for the top 20 per cent in society to decry the evils of modernization from the comfort of their upper- and middle-class lives. But ask the people. They will any day put up with Coca-Cola and KFC if it means two square meals, a decent home, and a job. Given a chance to exchange the Japanese standard of living with their own, they will always vote to give up their traditional life in the village for a better standard of living. The daily migration into our cities is adequate testimony. Thus, Bellah's concerns or Ashish Nandy's critique will not find resonance among the people involved.

This is the dilemma of modernization for a poor country like India. It is difficult to disagree with the BJP's desire to retain the good things in our traditional culture. This will, however, not be achieved through xenophobia or excessive tariff protection. It will come by having a vigorously competitive economy and improving the quality and quantity of education, which will ultimately give Indians confidence in their lives and

their culture. There is no question that modern life will erode many features of traditional society, but a better understanding of the past through education will give a person perspective and make him or her better able to retain that which is good and reject what is bad in tradition.

The ascent of the BJP in the last decade has made us rethink the place of nationalism in our lives. Nationalism has two fatal charms: it presupposes self-sufficiency, which is a pleasant prospect, and it suggests, very subtly, that we are superior just because we belong to a certain time and place. Unfortunately, both these assumptions are wrong and even dangerous—especially now, when we live in an interdependent, globalized world.

There is nothing wrong in being self-confident and proud as a nation, but protection will bring the opposite result. There has been a powerful sentiment in India that the way to national success is to be self-reliant, keep out foreign companies and try to make as many things in India as possible (even when it did not make economic sense). This thinking goes by the name of swadeshi and in recent years it has had a popular revival, especially among sections of the BJP. I can think of ten reasons why swadeshi-type protection is bad policy. First, it reflects an inferiority complex. Those who seek protection assume that Indians are inferior and cannot compete. They forget that Palanpuri Jains have captured half the world's market share for uncut diamonds, mainly at the expense of the Jews; Aditya Birla group is the world's largest producer of rayon; Laxmi Mittal's global steel empire has made him richer than the Queen of England; Reliance is among the ten most admired companies in Asia; Taj and Oberoi have created world-class hotel chains. India's software companies have the best computer engineers in the world and Indian entrepreneurs in Silicon Valley are at the heart of the Internet revolution. The proponents of swadeshi need to have more confidence in Indian abilities.

Second, it seeks to protect the interests of a few thousand industrialists at the expense of millions of Indians. A swadeshi

policy will restrict entry of foreign companies, foreign products, and raise import duties. It will deny our people the cheapest and best quality products in the world. Good governments first protect the interests of their consumers and only then its producers. Third, swadeshi does not further the interests of our companies either. Robust competition is the best school in which industry learns to succeed. Rivalry pushes companies to lower costs and improve quality and makes consumers demanding. By reducing competition, swadeshi will keep our companies weak. Thus, swadeshi is bad, not only for consumers, but also for products.

Fourth, we need $200 billion to build up our infrastructure. No one in India has that kind of money. We have to depend on global capital. It was British capital which financed America's infrastructure in the nineteenth century and launched its industrial revolution. America did not lose its sovereignty in the process. Even the BJP concedes that it needs foreign capital for infrastructure. But if it is willing to turn over strategic assets like power plants, roads, ports, and bridges to foreigners, it should not worry about potato chips and aerated water.

Fifth, the protectionist is wrong in believing that we can open our doors to foreigners in infrastructure and close them for consumer products. Global capital is integrated and operates with a herd mentality, on the basis of images and 'market sentiment'. We cannot be selective or half-pregnant. Sixth, there is nothing new about swadeshi. We have practised it since Independence. It has only delivered us shoddy, high-priced goods and weak, uncompetitive companies. The BJP ideologues want swadeshi only for ten years in order to create a level playing field. But ten years from now Indian companies will still want protection because businessmen basically dislike competition. Seventh, every country has its swadeshi movement, but smart governments ignore their swadeshi lobbies. For twenty years, American Presidents have ignored the pleas of their automakers that sought to limit the import of Japanese cars. When the Japanese captured a third of the American

market, their swadeshi lobby predicted the death of the American automobile. But what happened? Japanese competition forced Detroit to improve its cars and recapture market share. Americans drive excellent cars, and if the Presidents had opted for protection, they would still be driving Pintos.

Eighth, swadeshi will bring back the Licence Raj. The BJP wants hi-tech products but not consumer products. However, the personal computer is also a consumer product. Inevitably, political or bureaucratic discretion will decide who gets in. This is another name for corruption. Ninth, swadeshi presumes that someone should tell me what is good for me. Lurking deep in the swadeshi mind is a 'command mentality', which wants to build an autocratic society. Tenth, swadeshi is irrelevant. In a country where a third of the people live in poverty and half are illiterate, does it matter if a few people eat Kellogg's corn flakes? If foreign investment is less than 2 per cent of total investment, we ought not to waste our time on debating insignificant issues. We should focus our energies on improving the delivery of our programmes.

Although I had read his books, I did not meet Amartya Sen until 1992, when I was on sabbatical from P&G and attended his seminar, 'Equality and Inequality', at Harvard. He had not yet won the Nobel Prize, but he was one of the 'greats' on the campus. Yet he was quite wonderful in the way he had time for everyone. One day I showed him a column I had written for the *Wall Street Journal* in which I suggested that the BJP become a true conservative party. It would suit the BJP's temperament, I thought, because it wanted to conserve tradition, and the country might end up with a two-party system. Sen thought I was hopelessly idealistic in thinking the BJP would accept this personality and agenda. To him it was a fascist party. This, however, led us to a discussion of tradition and modernity. He felt that BJP's nationalist phobia about foreign products and ideas arose from mental confusion. He asked if the use of penicillin amounted to Westernization. What about the enjoyment of Shakespeare? Was Goethe somehow betraying

the European team because he was moved by Kalidas? Indian cooking was not less Indian because it used chilli, which was brought by the Portuguese into India.

Sen developed these thoughts into a talk that he gave some years later at the India International Centre in Delhi. He said that it is very difficult to pinpoint the origin of scientific ideas. Some of the basic ideas of trigonometry were developed in India, although they came back to India through Western textbooks. He gave the example of 'sine', which was used by Aryabhatta, the Indian mathematician, in the early sixth century AD. He mentioned the decimal system, which was well developed in India by the sixth century, and was taken from here by Arab mathematicians and reached Europe mainly in the last quarter of the tenth century. Related to it was the migration of the 'zero' at about the same time from India to Europe via Arab mathematicians.

Indian civilization is so diverse and plural, and has been shaped by so many influences—Dravidan, Aryan, Hindu, Greek, Buddhist, Scythian, Islamic, European—that it should be able to withstand the influence of the globalized culture. Unlike the alarmists, I feel that Indian culture is robust and should be able to maintain its richness and identity. Those who fear the loss of Indian culture ought to read Rabindranath Tagore. As usual, he got it right when he wrote, 'Whatever we understand and enjoy in human products instantly becomes ours, wherever they might have their origin. I am proud of my humanity when I can acknowledge the poets and artists of other countries as my own. Let me feel with unalloyed gladness that all the great glories of man are mine.'

21

Soap Wars

Not failure, but low aim is a crime.

—*James Russell Lowell*

One evening in Bombay I met Edward De Bono, the author of strange sounding management books, and he offered me an engaging definition of 'business'. A little boy asked his father, 'Daddy, what do you do?' The father replied, 'I am a businessman.'

'But what does that mean?' the boy said.

The father scratched his head and explained. 'See here, son, I go to work, and I make money. At the end of the month I give the money to your mother to run the house. What does that make me? Capital. And your mother? She is management.' Since they were well off, he pointed to the maid and said, 'She is labour.' The boy also had a baby brother and pointing to the baby, the father said, 'That is the future.'

That night the baby's cries woke up the boy. He went to the crib and discovered that the baby was wet and needed a diaper change. He rushed upstairs to find that the mother was fast asleep. He looked for his father, and he found that he was behind a closed door entertaining the maid. He came downstairs,

threw up his hands, and declared to the baby, 'This is hell of a business! Management is asleep, capital is exploiting labour, and the future stinks.'

With the end of communism, the globe has turned capitalist and democratic. Success in the world is increasingly defined by *business* success or what is fashionably called 'competitiveness'. This is also true in India after the economic reforms. As our nation's attention increasingly turns to business in the new century, it is important, I think, to understand what makes a business succeed and how to overcome our traditional weaknesses. Indian business has historically been insensitive to consumers; hence, our goods and services have been shoddy. It has been technologically backward and lacked innovation. And we are not cohesive as a people and thus make poor team players.

Oddly enough, I learned the most valuable lessons about effectiveness in business from Kamble, our security guard at Richardson Hindustan. One evening around 7:30, as I was leaving office, Kamble asked me to check the envelope on his desk. He did not think it was addressed properly and the courier would be there any minute to collect it. He was right. In fact, it was an important tape that our marketing people wanted to rush to the television studios for airing the following day. We quickly telephoned the advertising agency, corrected the address, and repaired the damage.

As I drove home, I recalled that this was not the first time that Kamble had saved the situation. He had come to us four years earlier as a 'temporary guard' and quietly become indispensable. First, he had learned to operate the telephone switchboard on his own initiative. Next, he had learned to use our complicated photocopying machine. Then, he began to send faxes. Finally, he became expert in fixing any number of things. He knew who was staying late, who was travelling, how to reach anyone's home. It had got so that if anything was needed after hours, our reaction was, 'Where is Kamble?'

When our telephone operator went on maternity leave, Kamble offered to take her place for six weeks. We soon

discovered that our telephone service had improved dramatically. Our business associates asked what had happened. For years, they had complained that our phones would ring and ring, and they had resigned themselves to a long wait. Now, to their surprise, our telephones were being answered on the second ring. I asked Kamble. 'Well, there might be a customer at the other end,' he replied, 'and we might lose an order.' Kamble was too perceptive not to know that our business did not generally come over the telephone, but it was his attitude that mattered.

I asked myself how we could get all our employees to act like Kamble. How could we get everyone in the company to answer their telephones as though there was a customer at the other end? This is the challenge before all managers. How does one get ordinary employees to care for the business as though they are owners, and do extraordinary things? The trouble is that most employees do not see customers when they come to work in the morning. They only see other employees. They see directors, middle managers, junior executives, secretaries, office boys, but they do not see customers. So, they get busy in office politics. Directors get absorbed in building empires; middle managers spend their time comparing the size of their office with their peers; junior executives are concerned with locating their name on inter-office memos to gauge whether they are rising or falling in the office hierarchy. The irony is that a company makes all its money outside the company—when the customer buys a product—but the employees spend all their time inside, usually arguing over turf.

The answer was clear—we had to take our employees closer to our customers. This might also help to give more meaning to their work. At the next management committee I suggested to our senior managers that all our 900 employees ought to spend two days a year in the bazaar, meeting ten consumers and ten retailers, and write a report offering their suggestions. The committee responded enthusiastically and we decided to implement the idea. A year later we discovered that less than a quarter of the people had actually gone to the

market. From those who had gone, we got some excellent suggestions on how to improve our products, our work processes and our behaviour. However, among the majority there was great lethargy to break the office routine. The following year we made the visit to the bazaar mandatory—the personnel department withheld salary increments unless it received a copy of 'the bazaar report'. Thus, market visits became an annual habit. Once they got to the bazaar, I think most people liked it. They understood why we were in business, and the company got some good suggestions in return.

The point of this symbolic exercise was to drive home the point that one exists because of one's customers. Once people start to believe this and it becomes widespread in the company, it is translated each day into hundreds of small activities that improve customer satisfaction. The greatest benefits of this belief come from scientists in product development. If scientists visit the bazaar frequently and early in their careers, they realize that they are not working for 'science' but to improve the lives of ordinary consumers. Once the consumer drives R&D efforts, rewards begin to come rapidly. Product improvements acquire urgency. As we stand at the threshold of the new WTO mandated global economic order, I think this is an important lesson for Indian companies. The only certainty now is that markets are going to become even more competitive. Only companies that are close to their customers will survive.

Kamble was a product of the absence of rigid rules in our small company. The more rules there are, the less people will do on their own, and the more effort they will spend in getting around the rules. Most organizations—whether companies, hospitals, schools, NGOs—operate on the basis that an employee will do something wrong, given half a chance. I have always believed the opposite. The ordinary person will generally do the right thing, left to his or her own devices. The important thing is that people believe that only results will win them rewards. Our personnel department, however, was suspicious of people and it constantly tried to make rules. I, on the other hand, liked ambiguity. Kamble had succeeded precisely because

no one knew where his job started and where it ended. If only results matter, then I think ordinary employees will surprise managers by doing extraordinary things.

Everybody in our company used to play carom board during lunch hour. For decades desktops would get emptied between one and two o'clock and our office became a loud youth camp. It bothered our personnel department and it tried to put a stop to this unseemly behaviour. I had to gently intervene and explain that playing carom at lunch might well be the tonic and relaxation that people needed. Perhaps the louder they shouted the more creative they became. Who really knows the source of human creativity? If you worry too much about appearances, you end up with employees who will give you good appearances. If you only care about results, then employees will give you good results.

It is important not to direct people too much and let them find their way. It might bring out their creative urges. This is not to say that one abdicates responsibility to train employees. A manager must train his subordinates all the time, and with a passion. But he or she must refrain from controlling them. The best thing a manager can do is to provide clear, ambitious objectives, and monitor the work of his subordinates against these objectives. If one trusts people, and makes them feel trusted, they will respond. People behave according to the way they are treated. Unfortunately, I was unable to get our head of personnel to share in my beliefs and we had to part.

It is vital that all employees share the company's mission and objectives. Most companies tend to be secretive and fear that competitors will steal their secrets. Thus, they avoid telling employees the most basic things. They forget that information, especially about goals and performance standards, is a powerful way to motivate employees. In a large organization, people desperately need to feel that there is meaning to their work. There is a story that one day Shah Jehan wanted to know how the Taj Mahal was progressing. To find out he disguised himself as an old man and he went to the site by the Yamuna river. There he came across a stonecutter, whom he asked

'What are you doing?' The stonecutter was annoyed by the disturbance and he said, 'Go away old man, don't you see that I am busy?' The stonecutter's dedication impressed Shah Jehan. He went to the next stonecutter, and he asked the same question. The second stonecutter was equally impatient and he told the disguised emperor, 'Cutting stone is a great art, old man, and I can't be answering questions and practising my art.' Again Shah Jehan was impressed; from his body language he could tell that the man was proud of his professional skills.

Finally, the emperor went to the third stonecutter to whom he put the same question. 'I am building the Taj Mahal, old man, and if I keep answering idle questions, I shall never be able to complete the most beautiful monument on earth.' Shah Jehan returned to his palace much pleased. Clearly, the third stonecutter had given the best answer. The first worker represented dedication to work—an honest day's work and an honest day's pay. The second showed professional excellence. The third symbolized the power of a shared vision. Too often at the workplace we falter because employees do not share a common goal and pull in different directions. I have found that ordinary people can do extraordinary things when they all focus on a common goal. After the oil shock in the 1980s, Nissan in Japan was able to cut its costs by 30 per cent in nine months because all its employees pulled together to achieve the goal. There is a concept in Sanskrit called *ekagrata*, which means 'one-pointedness'. Good managers, I have found, are one-pointed towards a goal. They do very few things. But they make sure that these are the right things. Then they execute them brilliantly. They also seem to have fun doing them.

Although Richardson Hindustan had become a high-performance company in India by the mid-'80s, its parent, Richardson Vicks Inc. (RVI) was faltering around the world. It, thus, became a plum target for takeover. In 1985, Unilever, the Anglo-Dutch consumer products giant, made a hostile bid to acquire RVI. However, it did not succeed and Procter & Gamble came to the rescue as a 'white knight' and acquired RVI. Senior managers at RVI made fortunes on their stock

options (as the bidding war doubled the stock price). However, the average RVI employee around the world was plunged in gloom. Rightly so, because the vast majority of RVI people lost their jobs in the next twenty-four months. We in India, however, were delighted by the merger. Suddenly, we had access to a large stable of leading brands. We also knew that we were good and P&G needed us in order to enter the large Indian market.

The next few years were exciting as we transitioned to a new business culture. We acquired three important capabilities from P&G. The first was a passion for product superiority. We had heard of P&G's awesome capabilities in marketing, but we did not know that this soapmaker was obsessed with technology. One could not even begin a discussion about introducing a new product or entering a new market unless one had data showing that the new product was rated significantly superior by consumers. P&G was a highly data-based company and it had worked out clear, actionable standards for what constituted product superiority. It had a thousand Ph.Ds in its laboratories working on improving its products constantly, and business managers had learned how to harness the power of these scientists to meet these standards.

A passion for recruiting and training outstanding youngsters from colleges was the second thing we learned from P&G. The secret of its success lay in making operating managers responsible for this activity rather than personnel managers. Each senior manager was assigned to a college, usually his or her own alma mater, and they were appraised each year on their recruiting results. In fact, the passion was inculcated from the day that a person joined the company because he was the constant recipient of 'on the job training'. Most companies evaluate a manager's performance on business results. At P&G, a manager's performance appraisal consisted of two short paragraphs—the first para evaluated business results and the second 'people results', or the manager's capability in building the organization.

Third, P&G taught us to write its legendary one-page memo. I was proud of my writing skill and at first, I was cynical. But I discovered to my surprise that there was an art to writing a memo on a single page. We learned to state the purpose and the conclusion of the memo in the first para. Hence, P&G memos began with, 'This recommends that . . .' The second para offered background. The third discussed the alternative solutions that the writer had considered. The fourth discussed the financial impact. And the fifth para described the next steps (usually a time and events schedule). Whether one proposed an investment of $100 million or $1000, one wrote the same basic memo. Thereby, younger managers learned to think logically and it saved senior managers (who always suffer from a paper overload) a great deal of time. It is a humbling experience for the high-flying MBAs from Harvard and Wharton to spend the first week at P&G learning to write clear English.

The war with Lever loomed large in the summer of 1991. India had the third largest laundry market in the world (after the US and China) and Hindustan Lever, Unilever's Indian subsidiary, controlled a fortress in India. The stakes were big and I knew that the battles would be bloody. Lever had been in the country for a century, and it was a formidable force in consumer products. It had introduced Surf, the first detergent, in the mid-1950s and decisively defeated Tatas, Sarabhais and Godrej in the ensuing decades. By the '80s, it had built an impregnable position with its laundry brands, Surf and Rin. However, as often happens with any successful company, its people had become complacent. They received a jolt when Nirma attacked with a very cheap product. The fortress, it seems, was not impregnable, and Surf took a battering, losing a quarter of its share. Its absolute volumes, though, did not decline, because the market exploded at the time, especially in the rural areas, as the country's economic growth rose to 5.6 per cent. By the late '80s, however, Lever had mounted a strong defence—introducing Wheel to fight Nirma at the low end—and it had begun to recover ground.

At P&G, we realized that it would be foolhardy to mount a head-on attack at the fortress. We needed a flanking strategy. To find where Lever was vulnerable we needed a deeper

understanding of the market. It took us months of interminable interviews, watching housewives wash clothes, talking to retailers and wholesalers, besides product and concept tests in thousands of homes to find the answer. We discovered that the Indian housewife was indeed unique. She washed her family's clothes in two steps. First, she soaked the dirty clothes in a bucket of water, adding a cup of detergent powder to loosen dirt. Second, she—or the maid—scrubbed each piece of clothing, one at a time, with a detergent or soap bar. Thus, she used two products each day. More than anything, it was the back-breaking drudgery of the two-step process that left a deep impression on me.

'What if we had a product that was so superior and so powerful that it could do the job in a single step?' we asked. We could then save her toil, time and improve the quality of her life. Since she had a tight budget, it also had to do the job for no more than what she currently spent on doing laundry. We charged our technical team at P&G's research labs in Cincinnati to find us such a product. Our only hope of success, I felt, was to bring discontinuity into the market. One day a bright young scientist did indeed find us a winning formula. In fact, it was so advanced that it had not yet been introduced in the US or in Europe. However, it was in test market in Japan (which has the most demanding consumers) where, to our delight, it was showing early promise.

The problem was its cost. We had to import the expensive state-of-the-art ingredients, which attracted heavy customs duties. Our sums showed that it would cost Rs 60 per kilo compared to Rs 27 for Surf and Rs 8 for Nirma. To many of my colleagues it was plain lunacy to sell the world's most advanced technology in a backward country. Lever, for instance, had not improved Surf since its introduction in the 1950s and the technological advances of three decades had bypassed the Indian consumer. Why should we aim to leapfrog to a costly and unproven technology?

I was convinced that product superiority is the best competitive insulation. Our only hope was to change the rules

of the game. This was the only technology, I felt, that Lever could not match quickly. Thus, we persisted. To begin with, we had to shake off our own 'price per kilo' paradigm. One, because our technology needed only a spoonful to do the day's wash compared to a cupful of the others; two, because it did the job of two products. When we did our sums we discovered to our delight that it would actually cost less than what the housewife spent every day when you added the cost of the two steps—that is, soaking with Surf and scrubbing with Rin. Compared to the cheaper brand, it cost a little more than soaking with Nirma powder and scrubbing with Nirma bar. Accustomed to buying by the kilo, the consumer did not add the cost of the two steps. Would she, however, understand the logic of price per wash? Or would she persist with 'price per kilo'?

When we tested our proposition in homes across the country, we were not surprised that consumers were thrilled with our product. They had never seen clothes so clean, and that too with a spoonful of powder. A large majority stopped using the bar. But more than half found it 'expensive' because they were unwilling to think in terms of cost per wash. This was the challenge for our advertising.

In July 1990, we introduced Ariel in test market in Vishakhapatnam, on the east coast, with a TV commercial that had a modern daughter-in-law trying to convince a sceptical mother-in-law. In the end, the mother-in-law was so thoroughly converted that she threw the soap bar out of the window. Because the bar resembled Rin, Lever took us to court. However, the housewives of Vishakhapatnam enthusiastically embraced Ariel. Within six months, our market share had climbed to 10 per cent, and we knew that we had a winner. We decided to invest Rs 8 crore in a new plant in Mandideep, near Bhopal. A year later, we expanded Ariel nationally, supported by the heaviest advertising campaign that India had seen and house-to-house demonstrations in a million homes.

The executives at Lever were shocked. Some of them thought that we had gone crazy—that our product was too

expensive. But to their credit, they did not sit still. They embarked on an ambitious product development programme of their own. They also counter-attacked with a controversial programme in which Lever demonstrators followed ours, and in the same homes attempted to convince housewives that Ariel damaged the colour of clothes. Lever scientists had discovered that a white cloth turned pink in a concentrated solution of Ariel for a few minutes (before returning to the original colour), but it was long enough to prove the point. We cried 'Foul'! We thought this a dirty trick and took Lever to court. Before we got a restraining order, however, the damage was done. Lever followed up with Surf Excel, an excellent product, almost as good as ours. After that, it became a dogfight, each trying to outdo the other to gain market share. Both companies lost a great deal of money, but the Indian housewife came out the real winner. She got the best value for the highest quality products in the world. I also believe that we took away some of her drudgery and improved the quality of her life.

There were many battles after this, but I left India at this point for a job at P&G headquarters. The soap war between Lever and P&G continues to this day in India and in the rest of the world, and it will in the future. The battles are relentless and there are no short cuts to success. There were many lessons from the war. To begin with, one needs a deep understanding of consumers and their needs. This is the price of entry into the battlefield. Innovative technology, especially if it is accompanied with an element of surprise, is a powerful source of competitive advantage. But technological edges are quickly eroded and not sustainable for long. One needs to keep innovating, even in mature industries like detergents. To attack an entrenched competitor, one should understand the strategies of the Prussian general von Clausewitz. Determination and marketing firepower are not enough. One needs to bring discontinuity to the market place, and ideally be able to change the rules of the game in one's favour. That is easier said than done, however, for it is more difficult to change the traditional habits and mental paradigms of consumers than to bring about technological innovations. The job of marketing and advertising, therefore, is to convince the consumer that 'my product works and my competitor's fails'.

What gave us the confidence to take on a giant like Hindustan Lever, a company twenty times larger than us, was the quality and motivation of our people. Even before we became P&G, we had an outstanding college recruiting programme—especially at the IIMs—that was the envy of the industry. After we brought in the best talent, P&G invested a great deal in training it. Motivation was high partially because we worked non-hierarchically in teams, but also because everyone understood that results and achievement were the only way to rise. Lastly, one must never underestimate a competitor, and be prepared for the worst at every turn. The best way to know a company's character is to compete against it. My respect for Hindustan Lever has grown enormously because of these battles.

22

Conclusion: Knowledge Is Wealth

The raft of knowledge ferries the worst sinner to safety.

—*Bhagavad Gita 4*

At the beginning of the twenty-first century, I feel as my parents did on 14 August 1947. On that day, Nehru voiced their sentiments when he said, 'We end today a period of ill fortune and India discovers herself again. The achievement we celebrate today is but a step, an opening of opportunity, to the greater triumphs and achievements that await us. Are we brave enough and wise enough to grasp this opportunity and accept the challenge of the future?' The brutal fact is that India's economic failure has hidden all the triumphs and achievements that Nehru dreamed of, and it is further behind, relative to the rest of the world, than it was at Independence. Fortunately, our situation has changed in the past decade. As the *Economist* wrote in August 1997, today '[India] stands at a new threshold, with greater triumphs and achievements once more in sight'.

The Vedic adage, 'knowledge is wealth', sums up the Indian opportunity in the new century. The world is rapidly

changing from an industrial to a knowledge economy. This means that jobs, exports, economic activity with the highest value added and national wealth will increasingly come from the knowledge sectors of the economy. Countries that participate vigorously in these sectors will be rewarded with a growing and a higher standard of living.

The historical experience of how country after country went from poverty to prosperity over the last two hundred years suggests that the transformation in each case was generally driven by one sector, which became the engine of the economy. In Britain it was textiles; in the United States the industrial revolution was led by the railways. Timber and timber products were responsible for Sweden's take-off; milk and dairy products did the same for Denmark. In today's language, the nation's competitive advantage emanates from its leading sector. Over the last fifty years India has struggled unsuccessfully to find its lead sector or its source of competitive advantage, and this explains, in part, its inability to create an industrial revolution. Now, it may have found it in the information or knowledge sectors of the economy.

India's emerging success in information technology is the first evidence. Its software exports have grown from practically nothing to $4 billion in the last five years, and they continue to grow at 50 per cent a year. This performance may also be understated for increasingly software exports of small companies are under-reported—they are delivered online and are recorded as 'invisibles inflow' in the nation's balance of payments accounts. And India's 'invisibles' have been growing much faster than its trade accounts. Critics, however, say that the size of India's software sector is tiny in global terms. But if software maintains its rate of growth, it won't be long before it becomes significant in that context too.

Investment bankers use the shorthand ICE to refer to the knowledge sectors, or the 'new economy' as it is sometimes called. In the acronym, 'I' stands for information technology and related services; 'C' for communication and telecom services; and 'E' for entertainment and media services. These sectors

are at the forefront in creating jobs, exports, and wealth in the global economy. Studies also show that America owes its economic success in the 1990s to its leadership in these sectors. In chapter 17 I showed that India, too, is demonstrating strengths in some of these sectors. Apart from software, IT related services are beginning to spread as domestic and international companies are increasingly setting up 'call centres' and back offices in India to provide remote services to global customers in financial accounting, map-making, health care scribing, publishing, 3D animation and many other areas. McKinsey estimates that IT-enabled services could become a $50 billion business by 2010, employing one to two million Indians. This will be possible because of pervasive English-language skills and our vast higher education system that graduates two million youngsters a year.

Entertainment and media is a third area where Indians are demonstrating capability. The recent success of Zee Television abroad reminds us of the popularity of Bollywood and Indian films, not only with the twenty million Indian diaspora but also in large parts of the Middle East, Central Asia, North Africa, and South-East Asia. Similarly, the new fusion music of A.R. Rahman and Daler Mehndi is being increasingly heard around the world. Another example is Crest Communications which makes 3D animated films for Hollywood studios.

Many are sceptical about India's ability to succeed in the knowledge economy when it failed in the industrial economy. And they insistently ask, how is it that a few hundred thousand 'knowledge workers' (or even a few million, if McKinsey's forecast comes true) can transform the lot of a billion people, particularly when 40 per cent are illiterate and our infrastructure is so poor? These are excellent questions and not easy to answer. Knowledge industries operate in the service economy and these are typically employment intensive compared to manufacturing. Indian knowledge workers have a clear cost advantage. I have cited the examples of NIIT, Zee Television, and Bharti Telecom—three companies that are creating masses of new jobs in services. Subhash Chandra claims that Zee TV

alone has indirectly created 250,000 jobs by outsourcing production and content creation. I have also alluded to the research of Professor Birch at MIT who claims that 70 per cent of the net new jobs in the US in the decade between 1985 and 1995 were created by 'gazelles'—new companies that started small and grew rapidly. Most of these jobs were either in services or in knowledge companies or both. The same is likely to happen in India. The Internet has so levelled the playing field and removed entry barriers that any new Indian entrepreneur with a powerful idea can succeed. Multinational giants no longer fear other large companies but the next start-up from the garage.

Having said that, it is also worth remembering the limitations of the Internet and e-commerce. Many people ask if the Internet is a fleeting fancy or is it here to stay? The answer is that there is hype but there is also a solid base in reality. The Internet will change everything we do, and it will revolutionize business. In 1999 in America 15 per cent of shares and 5 per cent of books were sold on the web and 40 per cent of car buyers consulted the net. While traditional travel agencies are beginning to disappear, web businesses have still not made any profit. E-commerce in America in 1999 recorded only 1 per cent of retail sales. Yet no company can afford to ignore the Internet. However, products still have to be produced and delivered in the brick and mortar economy. The mania for infotech stocks is definitely a technology bubble. Their shares are overvalued and 3 out of 4 Internet stocks in America now trade below their issue prices. When dot coms can raise capital so easily, they will tend to waste it. Having said that, the Internet may well be like the discovery of electricity and young Indians are right to chase their 'inner dreams'.

It is no use getting depressed at the thought that we might never have an industrial revolution. The industrial age is gone and there is no point trying to re-create the past. Moreover, the value added in information products will be far higher than industrial products. Even computer hardware is increasingly a generic industry where value added has plummeted. This is

what the capital markets also tell us. From 2 per cent market capitalization three years ago, ICE sectors are 25 to 30 per cent of the Bombay Stock Exchange now and are projected to be 50 per cent in 2001. Fifty per cent of daily trades are already in the knowledge stocks and shares. Hence, it is all right to skip the industrial revolution—as long as we succeed in the information age. A small amount of software will be able to buy a vast amount of steel.

Sustained success in the knowledge economy will require greater attention to education—both the expansion of primary education and improving the quality of higher education. More and better primary education will help wipe out illiteracy and ensure equity—that is, the rewards of economic growth will penetrate down and more people will share in the prosperity. Improving higher education will immediately impact national competitiveness. Education is not only good in itself, but it helps build competitive advantage in the knowledge economy.

Critics wonder how will we create computer literates when we still lack blackboards? The answer may lie, in part, on the success of experiments like the one in the Tamil Nadu that I have alluded to in chapter 17. The Tamil Nadu government and private companies like NIIT are collaborating to bring computer education to government schools. NIIT provides computers and teachers and the school provides the real estate (the most important cost in private IT education). During the day children get practically free education and after school hours it becomes a regular NIIT commercial centre open to the town's residents. Whatever profits are lost during the day are made up between 4 p.m. and 10 p.m. by NIIT. If there is profit to be made in teaching computers to young Indians, then we may have found a model for self-generating broad-scale computer literacy in the country. However, at this stage, it is too early to say if this programme will take off and be replicated.

Finally, critics must remember that a contemporary observer during Britain's textile boom in the early nineteenth century could not have foreseen that there was an industrial revolution in the making. In the same way, we are unable to see all the linkages between the seemingly elitist knowledge economy and the conditions of the masses. We can only see the 'digital divide'. So, to a great extent, it has to be an article of faith.

Critics also ask if it is actually wise for countries like India and China, possessing half a billion peasants each, to attempt to mimic the high-tech revolution emerging from the very different socioeconomic structures of California? One says, 'Even a hundred Bangalores would not solve India's poverty.' Another asks, 'Given their social structures, can India or China take the strain of creating world-competitive, high-tech enclaves (presumably enjoying the material benefits that would flow from their global success) in the midst of hundreds of millions of their impoverished countrymen? Enhanced technology is supposed to have a "trickle-down effect", but does that work when the ratio of highly skilled to unskilled in the population is so disproportionately low? Might not the resources allocated to catching up with the developed world's computer, aerospace, and communications technology and the rest be more usefully diverted into appropriate technologies to expand productivity in the village?'

These were the same doubts that people had in the 1960s when they wondered if it was appropriate for India and China to mimic the industrial path of the West. To ask such a question implies that India and China should not even attempt to catch up. That is a politically unacceptable choice. Even if it were feasible, the simple answer to these doubts is that we must push forward at all levels—advanced, intermediate, elementary, on the farm, in the factory and on the Internet. Neither are capital resources a constraint in the global economy.

Not since the heady days of the green revolution more than thirty years ago have we seen the same excitement and fever amongst our people. This time around it is the educated young in our largest cities who are leading the charge. I visit and speak extensively at college campuses, including IITs and IIMs, and I have found the same energy and fire. Once again, it is the thrill of a new technology that is electrifying young Indians. This time it is the Internet. Although the subject of

my talks varies, the students want to talk only about how to become Internet entrepreneurs (partly because of my association with a venture capital fund). They have the most amazing ideas, which they call their 'inner dreams'. I encourage them to pin their dreams to a business model and quickly seek venture funding. 'The moment is yours,' I tell them, 'for God's sake, seize it.'

Some brave ones have found the religion and have taken the plunge. They are beginning to burn the midnight oil as Internet players. And venture companies are falling over each other to grab the best early players. Companies like NIIT are setting aside funds to incubate hundreds of entrepreneurial ventures. One has only to read the *Economic Times* and *BusinessWorld* to follow this revolution from week to week. My fund alone has evaluated more than 500 business plans in the last three months. Young managers in the industrial companies and banks have also been bitten by the Internet bug and are beginning to leave their secure jobs and become partners in Internet start-ups. These ventures will soon face tough competition from our established companies and from Internet companies from America, the home of the Internet. This is happening in Japan where Sony and Fujitsu are linking with American dot coms. NEC has recently acquired a 30 per cent stake in eBay, and Yahoo Japan's share price was quoting at 2000 times projected earnings for fiscal 1999.

If our bureaucrats and politicians killed our industrial revolution, won't they do the same with the knowledge revolution? Our bureaucrats will not prevail this time around because of our economic reforms. Also, because the business is virtual they cannot see it or control it. Bureaucracy will find it difficult to kill our knowledge revolution because the Internet creates transparency and brings transactions into the public domain. It undercuts the bureaucrat's power, which is based on bartering of knowledge.

After fifty years, we are a nation disappointed with itself. One of the reasons for our discontent is our poor record in education. Four out of ten children in India are illiterate. It is

worse for girls and in the backward northern states, where teachers are often absent, schools lack the basic facilities, children are not motivated and they drop out. But there is a hopeful sign: there is tremendous thirst and pressure for education from below. In the past six years, literacy has risen from 52 to 62 per cent. This is a huge improvement, and if this trend continues, universal literacy is not far behind—despite the politicians. In some states responsibility for education is beginning to shift to the local panchayat, and this has brought more accountability. Madhya Pradesh and Andhra are leading the charge. The people of these states have returned the favour by re-electing their leaders. So, perhaps there is hope. If there is one thing that could secure our future, it is vigorous attention to building human capabilities.

If nature gave to the Middle East the gift of oil, and to Japan the sense of national devotion, to India it has given immense human intelligence, although it has balanced this gift with a lack of discipline and teamwork. Harnessing our human capital is our first duty. In today's global economy a country's status is determined by the share of brands that it commands and the share of brains that it uses. The economic reforms are a partial answer to this. When the government liberated the Internet from the monopoly of VSNL, it harnessed millions of young Indians minds. If it would open the trade in agriculture, it would harness millions of farmhands. The most powerful way to harness human capital is through education. The ten most important Indians are the education ministers of the ten largest states. The next ten are the secretaries to these ministers. Unfortunately, they do not realize their historic mission. The US, the EU, and East Asia are all embarked on massive plans to accelerate the development of their human capital. We are in a race. We may, in fact, have some advantages over our competitors. For every student China sends to the university, India sends six. But these advantages will be quickly dissipated unless we act.

At the millennium, India's real advantage is political. Democracy has taken root and it has produced a fair amount of

legitimacy. During the past fifty years, Indians went to school. They learned to change their governments periodically and peacefully; they gave free reign to their litigious natures and pushed the courts to the limit; they created a vigorous free press and more recently television; and they began to internalize the rule of law. As a result, diverse voices have risen, backward castes have come forward, a more pluralistic middle class has developed, and there is a greater balance of opportunity. Indians have a healthy contempt of their corrupt politicians who bring down governments each year. But they also know that beneath the seeming political instability is constitutional stability. Democratic India no longer faces the danger of rapid and fundamental shifts in ideology or policy. In this respect, it is better placed than undemocratic or half-democratic places like Russia, China, Indonesia, Egypt, and Pakistan. Having been schooled in a culture of individual rights, Indians ought to be capable of more questioning and innovative thinking. These are helpful skills in the information economy. The IT revolution can only take place, in a true sense, in a free society. If the Internet undercuts bureaucratic power, then democracy gives a significant advantage in the knowledge economy.

India is so complex, so heterogeneous. That it has survived as a modern nation is triumph enough. But it has done more. The ordinary Indian has lived through the best fifty years of his history. He has never been as free. He has not had to grovel before autocratic maharajas, nawabs, zamindars, and feudal lords. To be sure, bonded labour is not erased, and the Ranvir Sena occasionally terrorizes the Dalits of Bihar. There are corrupt, venal policemen and patwaris. But ordinary Indians have been able to change governments if they did not like them, express their views without fear of reprisal or go to court if they were not satisfied. You can tell this from their body language—they walk more confidently. This is the dividend of democracy. Democracy extracts a price, however. When a country needs to make a clear departure from old policies, the cacophony of democratic voices makes it difficult. Many feel that democracy is to blame for India's painfully slow economic

reforms. In authoritarian East Asia, they often blame India's democracy for its economic backwardness. I do not agree. Even in a democracy, I believe, a competent and zealous leader committed to reform can get the job done. After all, Thatcher, Keating, Rawlings, and Menem could do it.

If its advantage is political, India's disadvantage is economic. We have not lived with capitalism for long and have not had the time to adapt and strengthen our institutions to the rigours and pressures of life in a global market. Our market institutions are fragile. Financial systems, although hugely reformed in the 1990s, are still weakly regulated and are less well integrated into its social and political life. There is corruption and money politics.

The 1990s have been a traumatic time for my parents' generation. They have witnessed their world collapse before their eyes. For forty years, they were brought up to believe that the mixed economy was superior to both capitalism and communism. By 'mixed economy' they meant a mixture of socialism and capitalism that Nehru concocted in the '50s in which the state took a leading role in industrialization. They grew up in the smug belief that although the mixed economy was inefficient it was better than capitalism, because it cared for the poor. It was better than communism because it preserved democratic freedoms. Now they have realized that this was a lie. The problem of the mixed economy was of performance, not of faith. If it had worked, India and most of the Third World would be prosperous today. It was Nehru's noble vision that was going to show the way to the rest of the world. Its problem was that it led to oppression by the state. Indians have learned from painful experience that the state does not necessarily work on behalf of the people. It usually works on behalf of itself—the politicians, bureaucrats, and the interests which directly support them. State employees in India have become a powerful vested interest. They are responsible to no one and they often believe that they do not need to work.

I find that I may have been guilty in this book by attributing too much to Nehru, particularly in the early chapters. It is true

that my youthful enthusiasm for Nehru did turn into a real disenchantment. Both may appear excessive. The balance is never easy to maintain. It is always good to remember that if social forces are propelled by individuals, individuals too, including great ones, are shaped by social forces.

Defenders of the past argue that despite many missed opportunities, the years after Independence have been the best in India's material life. In the first half of the century, our economy grew less than 1 per cent per year; in the second half it has grown by 4 per cent. It grew 3.5 per cent between 1950 and 1975; in the '80s it rose to 5.6 per cent; in the '90s it has averaged 6.3 per cent for the decade. Admittedly, the tigers ran faster. However, this elephant of an economy is supporting a billion people—three times more people—and the per capita income is four times higher. Life expectancy has doubled; literacy has more than tripled; infant mortality is halved. This is a significant achievement, they say, particularly in a liberal democratic system. I agree, but I believe that we must benchmark ourselves with the rest of the world. India's per capita income, according to the World Bank Atlas for 1998, is $380, which places it 124th out of 157 countries. Half the Indian people are poor by the international poverty line of one dollar per person per day and a third of the world's poor are in India. Sixty-five out of 1000 infants die, and that is too high; two-thirds of the children suffer from malnutrition and are underweight. Seventy-one per cent cannot access sanitation; and as we have just noted, 4 out of 10 Indians are illiterate. This places India 134th out of 174 countries on UNDP's Human Development Index. This is poor performance.

More than anyone, Jeffrey Sachs, the Harvard economist, confirms my confidence in India's future. His boyish enthusiasm is as infectious as it is deceptive. Like a good professor, he combines energy, scholarship, and eloquence. He begins by reminding us that after the Second World War there were three types of economies in the world: a capitalist First World, a socialist Second World, and a developing Third World which aimed for a middle way. The Third World was not only poor

but it has also had a distinctive economic system, which closed the economy and assigned the state a pre-eminent role in industrialization (although not a monopoly of ownership as in the socialist economies). Today, this is all changed. Ninety per cent of the world's population now lives in open economies, he says. The past fifteen years have seen a most remarkable coming together among nations, and India's liberalization is part of a global movement. The collapse of the communist Second World has accelerated the integration of the world's economies and the opening of the Third World. A single global economic system has emerged, and its symbol is the World Trade Organization, established in 1995 by an agreement of more than 120 nations.

Whereas in the early 1970s seventy-one out of eighty-four developing countries were closed, says Sachs, today most of them have vigorously opened in order to integrate themselves with the world economy. What does integration mean? It means that these nations are lowering tariffs and other barriers to trade in order to increase exports and imports; they are harmonizing their legal, tax, and property systems with international norms; they are actively competing for technology and global capital. Under pressure from global competition, they are also reforming their domestic economies—removing price controls, privatizing, deregulating industry, and improving education. There seems to be an international race for who reforms the fastest.

Sachs's (and Warner's) recent empirical studies provide powerful evidence why open economies succeed and closed ones fail. Economists have long believed, ever since Adam Smith, that poor countries should grow faster than rich countries, and should close the gap in income over time. This is because they can import capital and modern technology from the rich countries and do not have to reinvent the wheel. Yet in the past fifty years, the poor countries did not broadly converge with the rich countries. Sachs shows that the problem lay with the trade regime: open economies tended to converge, but closed economies did not. Poor countries have not become

richer because they have been closed to the world. Between 1970 and 1990, the 'open' developing countries grew 4.5 per cent per year per capita while the 'closed' developing countries grew only 0.7 per cent. Eleven of the thirteen open economies grew more than 3 per cent per year, while only four of the 74 closed economies achieved such growth. Conversely, only 1 out of 13 open economies grew at less than 2 per cent as against 48 of 71 closed economies. Meanwhile, the rich countries grew 1.3 per cent a year in the same period.

Hence, poor countries do tend to grow faster than the rich do—as long as the poor and the rich countries are linked together by trade and investment. Poor economies have remained poor because they were closed. They denied their people the benefits of the enormous global prosperity since the Second World War. In the process, they have sacrificed almost two generations. India was one of these, and perhaps the most spectacular example of a man-made economic failure. 'Most spectacular' because it was big; it was a democracy; it had a large educated class of English-speaking people; it had the idealistic leadership of Jawaharlal Nehru, who invited sympathy and was a symbol of hope to the world's poor.

With the opening of its economy, India can no longer stop the relentless spread of technology, capital, and ideas of the global economy. If it could grow more than 5 per cent a year during the 1980s without significant reform, it ought to be able to sustain a 7 or 8 per cent growth after the reforms. Even with 5.6 per cent growth, it was able to pull millions above the poverty line in the '80s. Meanwhile, for the first time in decades, the population growth rate has slowed—it has declined from 2.2 per cent to 1.7 in the '90s. The two trends in combination should bring down the number of people below the poverty line to 15-20 per cent from about 50 per cent today. Countries in East Asia have achieved greater poverty reduction. Since income distributions are typically 'log normal', as the economists say, such a decline is possible.

As I mentioned in chapter 19, Jairam Ramesh, the articulate thinker in the Congress party, drew a line across India

connecting Kanpur in the north with Madras in the south a few years back. He said that the states west of this line were growing much more rapidly—many in double digits—than those to the east, and they would benefit far more sharply from the opening of the economy and grow much richer. The ones to the east would remain laggards. In a sense, some of our southern and western states are already 'tigers'. If the overall economy continues to grow 7 per cent, my projections show that 50 per cent of people west of this line will be middle class by 2020. The other half of India east of this line will reach that status only by 2040. (One has to cheat a bit with the line; for our purposes coastal Andhra is clearly 'west' of the line.) Disparities will obviously get exacerbated, but vigorous migration will help to ameliorate them. With a 7 per cent annual GNP growth and a 1.5 per cent population growth, India's GNP per capita will climb to $5653 in 2020 (from $1750 in 1999) on a PPP basis and to $16,500 in 2040 (with a caveat that the PPP index changes as income rises). If this projection turns out to be correct, it will change India. When half the population in the society is middle class, its politics will change dramatically, its mindset will be different, and society will have greater means to look after its poor.

That India's middle class was less than 10 per cent of the population in 1984 is a true measure of our failed economy! (I use the NCAER definition of the middle class, which calls it 'consuming class'.) Today, the middle-class is about 20 per cent, having tripled in absolute numbers. This trend will continue. When the majority of the population is middle class, it will also begin to impact poverty. It is clearly easier to look after 20 per cent of the population that is poor than 50 per cent.

India's poverty is a symbol of poverty on our planet. Fifteen years ago, the thought that we could make a significant dent on it would have been incredible. Today, astonishing as it may seem, we can dare to contemplate this hopeful proposition. China, with a head start, will achieve it faster. The major difference is that today we are focused on prosperity and creating wealth. This is what the economic reforms are all

about. Ten years ago our focus was on redistributing poverty.

We have got so used to the inequality between the rich and the poor countries in this century that we forget the astonishing truth that living standards around the world were roughly equal in 1750. Everyone was poor! Even in 1850 it was not very different. Today the average person in the developed world is more than ten times as rich as his counterpart in the developing world. How did this happen? The answer lies in the capitalist breakthrough which began in England between 1760 and 1820, with the invention of the cotton gin and the steam engine, followed by a wave of technological innovations in Europe and North America, with the railroad, the steamship, and steel. Soon after came the advent of electricity and the beginning of the explosion in the middle class and of mass consumption in the West. In the first half of the twentieth century, the automobile became the driving force of growth. The discovery of the chip and computers after the Second World War increasingly electronified life, and led to today's information society. With the emergence of Japan and the Far East in the last quarter of the twentieth century the world became a global economy, abetted by the incredible expansion in world trade, communications, and cross-border capital flows.

This creative dynamic of technology and capitalism has dramatically shortened the time it takes for a nation to develop. It took Britain 58 years to double per capita output (after 1780); the US took 47 years (after 1840); Japan took 33 years (after1880); Indonesia took 17 years (after 1965); South Korea 13 years (after 1970) and China 10 years (after 1978). The eight high-performing countries of East and South-East Asia not only grew rapidly but they also showed that they could eliminate poverty. In Indonesia the percentage of people below the poverty line dropped from 58 in 1972 to 17 in 1982; in Malaysia it declined from 37 in 1973 to 14 in 1987; in Thailand from 49 in 1962 to 26 in 1986; in Singapore it dropped from 34 in 1972 to 10 in 1982; in China an estimated 160 million people have emerged from poverty since 1979, when its reforms began. Life expectancy has grown from an average of 56 to 71 years across the Far East. Although many Far East countries got into trouble later in the '90s, they have shown that it could be done.

What could stop this happy future from happening is the Indian state. Government at all levels is appalling. All the states are bankrupt. Law and order is a serious problem. Our economy is only half-reformed. We have to rapidly privatize our public sector companies that are bleeding us, allow our private 'sick units' to close, eliminate both direct and indirect subsidies, strengthen the new regulatory agencies so that foreign investment begins to flow into infrastructure, open up trade in agriculture, get rid of reservations for 'small-scale' industry, move to a single VAT tax system and deregulate labour markets. These are among the most important reforms. If we execute this reform agenda, then our disgraceful fiscal deficit will come under control and our economy will become more competitive. The new reforms could lift our growth rate further, and with that India could transform the lives of its millions even faster. In the end, however, no matter what role the market plays, society will still need honest and efficient civil servants. This is India's soft underbelly.

I have two sons. Both are in their twenties and both were driven to live abroad by the socialist raj. We just didn't create enough jobs for them during our dark decades. Now we have begun to do so. Like most Indian parents, we would like them to return and make a life at home. They have begun to share this vision of our future, but like their friends, they are watching and waiting. The power of democratic India that has unleashed the market is finally rooted in its ability to make more of its human capabilities than ever before possible. Freeing the individual has released vast resources of energy and creativity. This is now channelled into software, entertainment, remote services, Internet start-ups, as well as Indipop, fashion, cricket mania, Indian novels in English. These have become 'global industries' and they passionately engage the Indian diaspora. The hand of family, caste, and the state, which had blocked human possibilities, is now letting go and Indians are discovering new forms of social and economic organizations that make more of human potential.

Growth will inevitably entail costs—megacities, overcrowding, atrocious working conditions and environmental disasters. The market exacts social costs. Some will gain and others will lose. Even if the winners greatly outnumber the losers, there will still be losers and in a country like India they will be considerable. But it has to be that way in a society with a young population that needs to absorb an increasing labour force. Rapid growth is a symptom of how far up the ladder Indians still have to climb, rather than India's imminent ability to take over the top slots of world power. With education and time Indians too will come to grips with their environmental problems. India will also have to balance growth in a framework of social order. Nobody knows the ideal social mix. The West certainly does not offer a model, for its tendency to excessive individualism has had a corrosive effect on family and society. Individualism is clearly vital in the economy of information and innovation, but the West has also learned that individuals need a supportive society. Indians will also have to confront the problem of how to blend society and the market and try to achieve a better balance between career, family, and society then the West has done.

It is no good hoping that Indian values and the Indian 'way of life' will survive intact. With all the triumphant talk of 'Asian values' that we have heard over the past decade it is now becoming clear that they have badly let the East Asians down. They turned out to be a smokescreen for crony capitalism, feudal politics, and institutionalized corruption. Critics have said that Asian values are indistinguishable from Victorian values (strong family, strong state, strong nationalism). It simply underlines the fact that in everything from industrialization to democratization we are following the well-trodden historical path of development. It has its positive and negative consequences, and we have to live with them.

There appear to be two global tendencies which are going to define India's future. The first is the relentless push of the global economy and communications, supported avidly by the rapidly growing middle class. Domestically, we will see the

irresistible spread of competitive markets and social democracy. The preoccupations of the people will be with a rising standard of living, with social mobility, with the peaceful pursuit of middle-class values and culture, influenced increasingly by the homogeneous global culture.

The second is the growing consciousness of religious identity in the world, which is leading to fundamentalist and separatist attitudes. In India, it manifests itself in the apparent desecularization of our society. This tendency encourages conflict, instability, divisiveness, rigidity and irrationality. It is in sharp contrast to the former tendency, which promotes peace, stability, integration, flexibility and rationality.

East Asia has followed the first trend; West Asia has followed the second trend. Which of these two trends is likely to prevail in India? Or will Indian society evolve uneasily from a constant clash of both these forces? The two impulses find parallels in the world outside. The first vision was provocatively enunciated a few years ago by Francis Fukuyama, who prophesied that with the collapse of communism, and in the absence of a competing ideology, liberal democracy based on free markets would sweep the globe. As a result, the world would increasingly become a homogeneous middle-class culture in which there would be no place for global conflict.

Opposed to this utopia was the vision of Samuel Huntington, who argued that instead of tending to a universal, homogeneous culture, the world was becoming increasingly fundamentalist and separate. He divided the post-Cold War world into eight distinct civilizations—the West, Islam, Confucian, Hindu, Japanese, Latin American, Slavic-Orthodox, and possibly African. He argued that civilization-consciousness was increasing, and conflict between civilizations would supplant ideological conflict and become the dominant form of global conflict.

There is some truth in both these accounts. The world is becoming more democratic and capitalist. Most of the former communist countries have become capitalist democracies. Sixty-two countries are in the midst of 'market friendly' economic reforms, including the fourteen largest developing countries.

The world is enthusiastically embracing middle-class values and the lifestyle of the Coke-MTV popular culture. Global defence expenditure is also down. Of the two biggest spenders, the USSR has disappeared. American defence spending has also declined. Thus, from one perspective the world is turning more peaceful, more homogeneous, more middle class, more capitalist, and more democratic.

At the same time, there is abundant evidence of the second tendency. Tribalism, ethnicity, and fundamentalism have grown over the past decade. Yugoslavia is the most dramatic example, but there were, by the last UN count, thirty-seven hot spots of ethnic strife in the world. The growth of Islamic fundamentalism is the most widely reported. The crescent-shaped Islamic bloc from the bulge of Africa to Central Asia has inflamed borders—against the Serbs in Bosnia, the Jews in Israel, the Hindus in India, the Buddhists in Burma, the Catholics in the Philippines. Fundamentalist movements are also growing in Christianity, Judaism, Buddhism, and Hinduism. It is the 'unsecularization of the world', says George Weigel. The Chinese countries are avidly embracing Confucian values; the BJP has become the largest political party in India. Everywhere, it is the young college-educated professionals who are most active in fundamentalist movements around the world. Like the rest of the world, India too is headed in the direction of some form of a democratic capitalist society whose peace will be occasionally punctured by religious extremism.

For all its positive features, there is also a bleak side to Fukuyama's generally sunny vision. It is that bourgeois life tends to become consumerist, lonely, banal, and unheroic. Mobility, weakened family bonds and a loss in community life accompany industrialization and the decline in religion. Critics of modernity remind us that the individual is alienated from his surroundings and without moorings. The Internet, if anything, seems to reinforce this tendency.

The irony of liberalism is that it gives the individual free space in order to fashion his life, but he is unable to cope with the free space and fills it with trivial objects. Without a God or ideology, bourgeois life is reduced to the endless pursuit of cars, VCRs, dishwashers, and channel surfing. The reference point is the self and the individual becomes self-absorbed in a world of physical security and rational consumption. Even when it comes to sport and exercise one prefers to jog rather than play team sports. Without a higher moral purpose, there are no heroic acts to perform. Is this the life that India has to look forward to in this century?

This is the experience of democratic capitalism in the West. The recent lessons from the Far East suggest that these nations too are likely to repeat the Western experience. My guess is that life in India will also change, but it will resist more than others in becoming 'dull and bleak' because of the powerful hold of religion. Although India may compress the economic timetable and become prosperous in the next twenty-five to thirty years, I believe it will not lose out on religiosity quite as rapidly. Religion has a powerful place in Indian life and the persistence of God will be its strongest defence. However, the challenge will be to keep religion a private matter.

India embraced democracy first and capitalism afterwards and this has made all the difference. India became a full-fledged democracy in 1950, with universal suffrage and extensive human rights, but it was not until 1991 that it opened up to the free play of market forces. This curious historic inversion also means that India's future will not be a creation of unbridled capitalism but will evolve through a daily dialogue between the conservative forces of caste, religion and the village, the leftist and Nehruvian socialist forces which dominated the intellectual life of the country for forty years, and the new forces of global capitalism. These million negotiations of democracy mean that the pace of economic reforms will be frustratingly slow. It also means that India will not grow as rapidly as the Asian tigers, nor wipe out poverty and ignorance as quickly as it potentially could.

The inversion between capitalism and democracy suggests that there might be a more negotiated—and therefore peaceful—transition into the future than, say, in China. India

might avoid some of the deleterious side effects of an unprepared capitalist society, such as Russia. But it is more likely to preserve its way of life and its civilization of diversity, tolerance, and spirituality against the onslaught of the global culture.

There is a powerful consolation that India affords to the world at all times, but which is even more precious today. The relentless onslaught of globalization makes people everywhere deeply uneasy. The prospect of living in a homogenized and faceless world is not a pleasant one. No one particularly likes the idea of the global culture. The global media ensures that we increasingly watch the same banal shows, hear the same capsuled news, listen to the same silly advertising slogans, and are moved by the same collective emotions. Regimentation under a consumer mass society of worldwide dimensions is a stifling prospect. And for what—so that we may have more and more consumer goods and material possessions? We are lost in a maze of large and anonymous organizations. We are filled with a profound sense of being alone in this unheroic world, with little control over our destinies. At other times we react to our alienated existence with tedium and boredom. These feelings of loneliness and alienation are the most acute in the most successful and competitive economies—the US, Japan, Germany, and Korea.

To this lonely and banal world, India offers a spiritual guide to the art of living. Despite the spread of the industrial society in the past fifty years, spiritual practice and family bonds continue to be nurtured in Indian life. This is not confined to the uneducated masses. Some of the most successful and rational people in all professions continue to turn to the spiritual. They do so for a number of reasons—as a solace against the madness and emptiness of contemporary life, as a true search for the meaning of life, as a matter of observing tradition, as a turning away from failure in the material world. Whatever the reason, religion and spirituality continue to have a powerful hold on the Indian psyche in all walks of life.

In the past fifty years more and more spiritual movements

from India have been exported to the West—a few of them were by charlatan gurus, but the vast majority of them provided attractive and established spiritual solutions to the art of living. This explains the persistent hold of India as a destination for young people in the West (and increasingly the East) seeking an alternative way to live their life. Neither is this a new fad. The tendency goes back 2000 years. Fa Hien and Huen Tsang, two Chinese travellers, came looking for Buddhist wisdom. Alberuni, an Islamic scholar who was more interested in the rational achievements of the Hindus in mathematics and astronomy, was attracted by Vedanta. Later, after the West discovered India, great nineteenth century intellectuals like Goethe, Schopenhauer and Nietzsche were influenced by Indian philosophy. In more recent times, Theosophists, Ramakrishna Missions, Transcendental Meditation, and numerous spiritual organizations have introduced the world to the 'Indian way of life'.

This 'Indian way of life' presents an appealing alternative to a developed post-industrial liberal society that has solved its material problems. It may also be attractive to those individuals who cannot cope with the 'anxiety of liberalism'. Indians, who have been economically slower, are in a better position to defend themselves against the challenges of globalization. Having said that, this 'Indian way of life' is no substitute or excuse for a hard-headed, rational approach to solving our problems of poverty and disease.

The history of the twentieth century has left the West deeply pessimistic. This is in contrast to its optimism in the nineteenth century, which was based on two beliefs: one, modern science would improve human life and conquer disease and poverty; two, democracy would rapidly spread across the world and vanquish tyranny. The futile 1914-18 war, followed by the genocides in Hitler's Germany, Stalin's Russia and Mao's China, totally undermined its confidence. Our experience of the last century is different. We won our freedom from colonial rule and we followed it up by building a healthy, vibrant democracy. Economically, we may not have performed

as well as the Far East nations, but we did conquer famines, ended economic stagnation and are now poised for rapid growth. The old Congress-dominated centralized India is as completely in the past as the British Raj. The new India will be one of competition and decentralization.We face the very real prospect of conquering the pervasive poverty that has characterized the lives of the majority of the people. We have, thus, good reasons to expect that the lives of the majority of Indians in the twenty-first century will be freer and more prosperous than their parents' and grandparents' lives. Never before in recorded history have so many people been in a position to rise so quickly.

References

This is not a scholarly work. It is a personal account of the events and ideas that have pervaded our times in India. Hence, I have tried to avoid littering the text with footnote numbers. I have, however, quoted others, made liberal use of their ideas, and I acknowledge them below.

Frontispiece

p. vi '. . . When old words die . . .' Rabindranath Tagore, *Gitanjali*, 1912, p. 37.

Introduction: The Wise Elephant

p. ix '. . . the causes of wealth . . .' Quoted in J.M. Keynes, *Collected Works*, X, pp. 97-98. Cited in David Landes, *The Wealth and Poverty of Nations*, W.W. Norton & Co, New York, 1998, p. vii.

p. xiii 'India's per capita income . . .' *World Bank Atlas*, The World Bank, Washington DC, 1998.

p. xviii 'Between 1970 and 1990 . . .' Jeffrey D. Sachs and Andrew Warner, 'Economic Reform and the Process of Global Integration', *Brookings Papers on Economic Activity*, no. 1 (1995), pp. 1-118.

PART ONE: OUR SPRING OF HOPE (1942-1965)

p. 1 'Some try to represent . . .' James Wilson, founder and editor of the *Economist*, in November 1843, in its tenth issue, in an article titled 'Widow Biddle and The Poor Needle-Women Of The Metropolis', from *The Pursuit of Reason: The Economist 1843-1993*, by Ruth Edward Hamilton, London, 1993.

1. Ranting in English, Chanting in Sanskrit

The family conversations in this chapter have been reconstructed from interviews with members of my family, mostly in the early 1980s, except with my grandfather, with whom I spent long hours in the early 1960s.

p. 4 'three million people perished'. The official Famine Inquiry Commission (1945) reported a death toll of 'about 1.5 million'. W.R. Ackroyd, a member of the Commission, later wrote, 'I now think it was an under-estimate, especially in that it took little account of roadside deaths.' Quoted in Amartya Sen, *Poverty and Famines: An Essay on Entitlement and Deprivation*, Clarendon Press, Oxford 1981, p. 52. Sen has estimated the death toll to be around 3 million. (Appendix D, pp. 195-216).

p. 5 'liberator with clean hands . . .' The phrase belongs to Andre Malraux, *Antimemoirs*, trans. Terence Kilmartin, Hamish Hamilton, London, 1968, p. 133.

p. 6 'caused not by a decline in the food . . .' 'The [food] supply for 1943 was only about 5 per cent lower than the average of the preceding five years. It was in fact 13 per cent higher than in 1941, and there was, of course, no famine in 1941.' (Ibid, p. 58).

p. 6 'Rangoon falls to Japan . . .' The excerpts from the reports of the district officers and commissioners are from the Famine Inquiry Commission (1945), Appendix VI. (Ibid, p. 55). The newspaper reports are from the *Statesman*, and quoted in K.C. Ghosh, *Famines in Bengal 1770-1943*, Calcutta, 1944.

p. 6 'The Bengal Famine . . .' Patrick French, *Liberty or Death: India's Journey to Independence and Division*, HarperCollins India, Delhi, 1997, p. 181.

p. 6 'I hate Indians . . .' John Barnes and David Nicholson (eds.), *The Empire at Bay: The Leo Amery Diaries, 1929-1945*, London, 1988, p. 832.

p. 6 'Figment of the Bengali imagination' Patrick French (1997), ibid, p. 181.

p. 6 'Hitler-like attitude Penderel Moon, *Wavell: The Viceroy's Journal*, London, 1973, p. 89.

p. 7 'Amartya Sen tells us' See his book with Jean Dreze, *India: Economic Development and Social Opportunity*, Oxford University Press, Delhi, 1995, chapter 4.

p. 8 'To have FDR's . . .' Christopher Ogdon, *Life of the Party*, London, 1994, pp. 122-23.

p. 9 'The truth was that . . .' Warren Kimball (ed.), *Churchill and Roosevelt: The Complete Correspondence* (3 vols), Princeton, 1984, vol. 1, p. 374. Quoted in Patrick French (1997), ibid., p. 139.

p. 9 'To ensure Churchill . . .' The words are Lord Amery's, the Secretary of State for India, to the Marquess of Linlithgow, the Viceroy of India. Quoted in Patrick French (1997), ibid., p. 143.

p. 9 'I feel absolutely satisfied . . .' and the remaining quotes in this paragraph are also from Patrick French (1997), ibid., p. 145.

p. 12 'There were two competing visions . . .' I owe the inspiration for this paragraph to Tony Joseph's column, 'Two Utopias, Three Preferences' in *Business Standard*, August 1997.

2. Smells of the Bazaar

p. 18 'The principle of . . .' Irving Babbit (1865–1933), Harvard University, *Democracy and Leadership*.

p. 20 'possessed great influence . . .' Quoted in David Landes, *The Wealth and Poverty of Nations*, W.W. Norton & Co, New York, 1998, p. 166.

p. 20 'no Englishman who started . . .' Ibid, p. 162.

p. 20 'not merely a crime . . .' Ibid, p. 167.

p. 23 'In the inner and outer . . .' Alan Ross, *The Emissary*, Collins Harvill, London: 1986, p. 8.

p. 26 'GD became the largest supporter of the Congress.' The historian, Bipan Chandra, says that he has found no evidence of GD financing the Congress. However, GD did generously support Gandhi's charities—Charkha Sangh and Harijan Sangh. Nevertheless everyone believed that Birlas supported the Congress with money, including the British.

p. 26 'every possible step . . .' Herdeck and Piramal, *India's Industrialists*, vol. 1, Three Continents Press, Washington DC, 1985, p. 71.

p. 27 'I think Queen Mary . . .' Lord Wavell, *The Transfer of Power*, Volume 4, cited in Minhaz Merchant, *Aditya Vikram Birla: A Biography*, Viking, New Delhi, 1997, p. 26.

p. 27 'English rule without Englishmen . . .' M.K. Gandhi, *Socialism of My Conception*, p. 225.

3. The Train to Nowhere

p. 30 'They saw a Dream . . .' Charles Leland (1824–1903) *Brand New Ballads*, 'The Masher'.

p. 31 'Long years ago we made a tryst . . .' *Jawaharlal Nehru, Independence and After: A Collection of Speeches*, Publications Division, Government of India, New Delhi, 1949, p. 3.

p. 33 'It had no such effect . . .' *Daniel Thorner, The Shaping of Modern India*, Allied, Bombay, 1980, p. 120.

p. 34 'They put together a powerful . . .' One of the promoters wrote, 'This is a matter of extreme importance in India, where the energy of individual thought has long been cramped by submission to despotic governments, to irresponsible and venal subordinates, to the ceremonies and priesthood of a highly irrational religion, and to a public opinion founded not on investigation, but on traditional usages and observances.' This was in a letter to the Right Honourable Lord John Russell, MP, on the subject of Indian Railways (London, 1848), cited in Daniel Thorner, *Investment in Empire: British Railway and Steam Shipping Enterprise in India, 1825-1849*, Philadelphia, 1950, pp. 151-52.

p. 35 'In comparison, the US had . . .' Thorner (1980), op cit., p. 120.

p. 36 'She worked hard to get . . .' Macaulay summed up the aim of English education in India as being the raising of an English educated Indian middle class 'who may be interpreters between us and the millions whom we govern; a class of persons, Indians in blood and colour, but English in taste, in opinions, in morals, and in intellect.' Macaulay had contempt for Oriental culture. He wrote in a famous and arrogant statement: 'I have no knowledge of either Sanskrit or Arabic . . . But I have done what I could to form a correct estimate of their value . . . Who could deny that a single shelf of a good European library was worth the whole native literature of India and Arabia . . . all the historical information which has been collected from all the books written in the Sanskrit language is less valuable than what may be found in the most paltry abridgements used at preparatory schools in England.' (The text of Macaulay's Minute is in M. Edwardes, *British India 1777-1947*, Sidgwick and Jackson, London, 1967.)

p. 41 'On a fine, spring day . . .' The first-hand account of Alexander's battle comes from letters and accounts written by fifteen contemporaries of Alexander, who fought under his command. Alexander knew that he was making history and he made sure that he had plenty of historians at hand. On the basis of these sources Arrian wrote his famous *Campaigns of Alexander*, from which I have largely drawn my narrative. Arrian, *Campaigns of Alexander*, trans. Aubrey de Selincourt, Penguin Books, London, 1971. I have supplemented it with J.W. M'Grindle, *The Invasion of India by Alexander the Great*, Constable, Westminster, 1896, and chapter 15 of the *Cambridge History of India*, vol. 1, Cambridge University Press, Cambridge.

p. 46 'On the soggy bank . . .' Arrian, *Campaigns of Alexander*, op cit., 274.

p. 46 'the Indian cavalry . . . did not . . .' Stephen P. Rosen, *Societies and Military Power: India and its Armies*, Cornell University Press, Ithaca, 1996, pp. 80-83.

p. 46 'checked the advance of his . . .' Arrian, op cit., pp. 288-89. See also ibid., p. 83; Jadunath Sarkar, *Military History of India*, Sarkar, Calcutta, 1960, pp. 8-10, 20-23. The same views are echoed by Mookerji, *Chandragupta Maurya*, p. 26, and Mazumdar, *Military Systems of Ancient India*, p. 46.

p. 47 'The Indian defenders of the Punjab were . . .' Sarkar, ibid., p. 21.

p. 47 'private animosities, personal . . .' Maj. Gen. Niranjan Prasad, *The Fall of Towang*, 1962, Palit and Palit, New Delhi, 1981, pp. 13, 20. See also D.K. Palit, *War in High Himalaya*, p. 106. Cited in Rosen, op cit., p. 242.

p. 47 'the only justifiable conclusion is . . .' Harbakhsh Singh, *War Dispatches*, and Sukhwant Singh, *India's Wars Since Independence*. The conclusion is drawn by Rosen, op cit., p. 248.

p. 48 'The end result is that . . .' Dhirendra Narain, *Hindu Character*, University of Bombay Publications, Sociology series no. 8, Bombay University Press, Bombay, 1957.

p. 48 'The adult Indian male personality . . .' P. Spratt, *Hindu Culture and Personality: A Psycho-analytic Study*, Manaktalas, Bombay, 1966, pp. 1, 9; Sudhir Kakar, *The Inner World: A*

Psycho-analytic Study of Childhood and Society in India, Oxford University Press, Delhi, 1978, pp. 104, 134.

4. Blind Then, Blind Now

p. 50 'Good intentions . . .' Jami, 'The Camel and the Rat,' *Baharistan*, (15th century).

p. 51 'the deceased king's jewellers . . .' Dwijendra Tripathi, *The Dynamics of a Tradition: Kasturbhai Lalbhai and his Entrepreneurship*, Manohar, New Delhi, 1981, p. 24.

p. 52 'without dispute, one . . .' Ibid, p. 26.

p. 52 'light in weight and heavy in price . . .' Ibid, p. 28.

p. 53 'If the price of textiles is low . . .' Niranjan Bhagat and others (ed.), *Tribute to Ethics: Remembering Kasturbhai Lalbhai*, Ahmedabad, 1983, p. 9.

p. 54 'Sheth Kasturbhai has set up . . .' Dwijendra Tripathi, op cit., p. 99.

p. 56 'Probably nowhere else . . .' Jawaharlal Nehru, *Jawaharlal Nehru's Speeches*, vol. 3, 1953-1957, New Delhi, 1958, p. 3.

5. If We Were Once Rich, Why Are We Now Poor?

p. 59 'The greatest thing since . . .' Francisco Lopez de Gomara, *History of the Indies*. Cited in David Landes, *The Wealth and Poverty of Nations*, W.W. Norton & Co, New York, 1998, p. 60.

p. 61 'from the most ancient times . . .' G.W.F. Hegel, *The Philosophy of History*, trans. J. Sebree, Dover, New York, 1956. Quoted in Sugata Bose and Ayesha Jalal, *Modern South Asia*, Oxford University Press, Delhi, 1998, p. 1.

p. 62 'He spoke about spices . . .' The Portuguese discovered that a hundredweight of pepper could be bought in Calicut for 3 ducats and sold in Europe for 80 ducats. David Landes (1998) op cit., p. 89.

p. 62. 'unbeatable for quality . . .' David Landes (1998), op cit., p. 225. According to N. Steensgaard, 'The Growth and Composition of the Long-Distance Trade of England and the Dutch Republic before 1750,' in James Tracy (ed.), *The Rise of Merchant Empires: Long-distance Trade in the Early Modern World 1350-1750*, Cambridge, 1990, pp. 102-152. The East India Company's export of cotton fabrics rose from 221,500 pieces to 707,000 pieces in the 1680s.

p. 63 'Indian cottons transformed . . .' D. Landes (1998), ibid, p. 154.

p. 63 'During the Mughal Empire . . .' According to Irfan Habib it was closer to 150 million. 'Potentialities of Capitalist Development in the Economy of Mughal India,' *Journal of Economic History*, vol. 29, no. 1, pp. 32-37.

p. 63 'not in any way backward . . .' Ibid, p. 34.

p. 63 'The annual revenues of the Mogul emperor . . .' John Kautsky, *The Politics of Aristocratic Empires*, University of North Carolina Press, Chapel Hill, 1982, p. 188. Cited in David Landes (1998), op cit., p. 156. Landes says that these estimates are based on pre-World War I dollars, and one must multiply them by twenty to twenty-four in order to match the 1990s dollar value.

p. 63 'India had a 22.6 per cent share . . .' Angus Maddison, *Chinese Economic Performance in the Long Run*, OECD, Paris, 1998. China had 23.1 per cent of world GDP in 1700 and the whole of Europe had 23.3 per cent. By 1952, India's share declined to 3.8 per cent and China's to 5.2 per cent; Europe climbed to 29.7 per cent and the US had 28.4 per cent in 1952. By 1995, India grew modestly to 4.6 per cent, China doubled to 10.9 per cent, while Europe and the US declined somewhat to 23.8 per cent and 20.9 per cent respectively.

p. 64 'Hence, it is not surprising . . .' The descriptions of eighteenth century India by Buchanan, J.L. Holwell, Hove, F. Pelsaert, J. Ovington, M. Wilks, J. Forbes and W. Bolts can be found in Tapan Raychaudhuri, 'The Mid-Eighteenth Century Background', in *The Cambridge Economic History of India*, edited by Dharma Kumar and Meghnad Desai, vol. 2, pp. 3-35, Cambridge, 1983.

p. 64 'More important, there was a . . .' Tapan Raychaudhuri, 'The Mid-Eighteenth Century Background', in *The Cambridge Economic History of India*, edited by Dharma Kumar and Meghnad Desai vol. 2, pp. 3-35, Cambridge, 1983. He goes on to say, 'It drew upon a wide range of manufactures and commercial crops to supply an extensive domestic as well as overseas market. India's textile exports met the basic requirements of cloth in several parts of South-East Asia and the Middle East. The competitive power of this line of trade—based on very low costs of production—is evident in

the need felt by the British textile industry for protective tariffs despite the high cost of inter-continental trade.

p. 64 'The competitive strength of Indian manufacturers . . .' *The Cambridge Economic History of India*, ibid, p. 32: 'India had not witnessed any agricultural revolution. Her technology—in agriculture as well as manufactures—had by and large been stagnant for centuries. For a country so advanced in civilization, the technology was also rather primitive. The use of inanimate power in any form was virtually unknown.'

p. 64 '. . . the peasant was extremely poor.' The standard of living of the Indian masses when the Europeans first came to India is a controversial issue. Whereas European travellers and visitors reported general misery, a number of scholars think that these travellers did not really understand the true picture. Some have even calculated the food intake of peasants and concluded that the Indian ryot lived as well if not better than the English farm labourer. These income estimates seem to me hard to believe, although they have been calculated by respected scholars. It is risky business to project incomes backward from the twentieth to the eighteenth century. Even a small mistake, when it is expanded over 200 years, contains a huge multiplier, and can be misleading. I find it hard to accept their conclusions because European agricultural productivity had begun to improve at this time with better techniques, labour saving devices and stronger property rights.

Some historians claimed that India would have become an industrial economy had British colonialism not intervened and tragically cut it from its inevitable destiny. A Japanese scholar has reinforced this view. Writing on the economy of Central India in *The Cambridge Economy History of India*, he cited the royal karkhanas of the seventeenth century, saying 'one is tempted to speculate if (these royal workshops) might not have moved in the direction of mechanisation and become the state model factories for the model industrialisation of India, had they not been terminated by the British conquest of the country.' This is idle speculation particularly when after fifty years of trying as an independent nation the broad industrialization of India still eludes us.

p. 65 'In India it is seldom . . .' F. Buchanan, *A Journey from Madras . . . (1807)*, cited in Raychaudhuri, op cit., p. 291.

p. 65 'India remained slow . . .' Was the Indian merchant somehow to blame? When the huge European market opened in the seventeenth century and there was huge escalation in demand, it created enormous supply problems in India. There were many reports of irregular supplies and delivery failures. This would have been the ideal incentive, one would think, to infuse innovation in the supply chain.

The Indian merchant also occupied a central place in the supply chain. He bought cotton pieces from the spinners and weavers, sold them to the European traders, and chartered companies, and they in turn delivered them to their European customers. He normally advanced capital to the weaver against the promise of delivery. The weavers usually operated from their homes, employing their whole family as a small-scale family-based unit. The weavers were very poor, and they depended on merchants for their raw material. The merchants kept them 'on a short lease', paying them by the day so that they would not run off with the goods or the advance.

This was different to the European 'putting out' method, where the merchant took part in the production process. Because the European merchant was much more deeply involved in the process, he presumably had a greater incentive to innovate. Because of this leisurely system and slow transport, it often took years to deliver the product. Irfan Habib, a scholar of Mughal India, describes huge trains of bullock carts, numbering tens of thousands, carrying raw cotton from the ports of the spinning and weaving villages. These bullock trains moved a few miles a day and took six months to deliver the material.

Why couldn't the Indian merchant have taken charge of the whole process, especially when there were massive rewards to be had? Rather than merely advancing money to the weaver, he could have found, assembled and bought the raw materials; he could have assembled a large number of workers in one place and supervised their manufacture. Certainly, he would have had to face the challenges of organizing large-scale activity, but that is what entrepreneurship is all about. This process of organizational innovation would thus have led to opportunities for technological innovation.

p. 65 'According to Paul Bairoch . . .' Paul Bairoch, 'Ecarts internationaux des niveaux de vie avant la Re'volution industrielle,' *Annales: economies, societes, civilisations*, vol. 34, no. 1 (Jan-Feb 1979).

p. 65 'England had achieved . . .' Simon Kuznets, *Underdeveloped Countries—Present Characteristics in the Light of Past Growth Patterns*, mimeographed paper, 21 April 1958. Quoted in Gunnar Myrdal, *Asian Drama: An Enquiry into the Poverty of Nations*, vol. 1, Pantheon, New York, 1968, p. 454.

p. 66 'the bones of the cotton weavers . . .' Quoted in Deepak Lall, *The Hindu Equilibrium: Cultural Stability and Economic Stagnation, India 1500 BC-1980 AD*, vol. 1, Oxford, 1984, p. 184

p. 67 'Since India consistently exported . . .' My uncle must have been quoting Paul Baran, *The Political Economy of Growth*, New York, 1957, p.148. Later a calculation by Irfan Habib put the drain in 1882 as 4 per cent of national income versus 10 per cent of Baran's. Irfan Habib, 'Studying a Colonial Economy—Without Perceiving Colonialism,' *Modern Asian Studies*, 19 March 1985, pp. 375-76.

p. 67 'My uncle had put forth . . .' Indian nationalists had talked of the 'drain' as early as the beginning of the twentieth century. Dadabhai Naoroji, *Poverty and Un-British Rule*, London, 1901; R.C. Dutt, *The Economic History of India in the Victorian Age*, London, 1906.

p. 68 'Also, the overhead cost . . .' It was around 20 million pounds or less than 2 per cent of exports at the end of the nineteenth century and less than 1 per cent of exports in 1913. K.N. Chaudhuri, 'India's International Economy in the Nineteenth Century: An Historical Survey', *Modern Asian Studies*, 19 March 1985, pp. 375-76.

p. 68 'If India were to have maintained . . .' Vera Anstey, *Economic Development of India*, London, 1929, p. 511.

p. 68 'Only a part of that precious . . .' In world trade circles India was always the world's 'sink' for gold and silver. Pliny was aware of India's appetite for precious metal in ancient times and J.M. Keynes used it to argue for a gold exchange standard for India in *Indian Currency and Finance*, London, 1913. Nationalist historians had admitted that capital did increase partly because of bullion imports, but they argued that it went into the hands of landlords and aristocrats rather than helping to finance economic activity. Inequality may have increased with bullion imports, but this was not Britain's fault. In any case, it is not relevant to the drain theory. B.R.Tomlinson, *The Economy of Modern India, 1870-1970*, *The New Cambridge History of India*, vol. 3, Cambridge University Press, Cambridge 1996, p. 15.

p. 69 'By 1900 India's share had declined . . .' Maurice and Taya Zinkin, *Britain and India*, Chatto and Windus, London, 1964, p. 67.

p. 69 'In 1896, Indian mills supplied . . .' Angus Maddison, 'The Colonial Burden: A Comparative Perspective', in M. Scott and D. Lall (ed.) *Public Policy and Economic Development: Essays in Honour of Ian Little*, Oxford, 1990, p. 57. The 'drain' quite simply was equal to the current account surplus.

p. 70 'Manufacturing output grew . . .' Rajat Ray, *Industrialisation in India: Growth and Conflict in the Private Corporate Sector*, Oxford, Delhi, 1982, p. 341.

p. 70 'The British government finally . . .' The general tariff was raised to 7.5 per cent in 1917, to 15 per cent in 1922, reaching 31 per cent in October 1931. A special rate of 20 per cent (15 per cent for British goods) was fixed for low-quality cotton textile imports in 1930, and this rose to 50 per cent for non-British goods in 1932 and 75 per cent in 1933. Dharma Kumar, 'The Fiscal System,' *The Cambridge Economic History of India*, vol. 2, pp. 921-24.

p. 70 'Others diversified into shipping . . .' B.R. Tomlinson (1993), op cit., p. 143; Rajat Ray (1982) op cit., p. 276 ff.

p. 70 'The Empire is a bread . . .' Quoted in John Strachey, 'The Great Awakening,' *Encounter*, no. 5, 1961, p. 9.

p. 70 'if the British Empire fell . . .' Quoted in Michael Brown, *After Imperialism*, Heinemann, London, 1963, p. 294.

p. 71 'So did France, Holland . . .' John Strachey's *The End of Empire* provides a wealth of evidence disproving the old idea.

p. 71 'By 1914, India had the . . .' Morris D. Morris, 'The Growth of Large Scale Industry to 1947', in *The Cambridge Economic History of India*, Cambridge, 1983, vol. 2, p. 553.

p. 72 'Gunnar Myrdal, found that . . .' Gunnar Myrdal, *Asian*

Drama: An Enquiry into the Poverty of Nations, Pantheon, New York, 1968, vol. 2, Appendix 2, p. 1843 ff.

p. 72 'According to Myrdal, poor work . . .' Ibid., p. 1862.

p. 72 'These were compounded by . . .' Ibid., p. 1862.

p. 72 'Deepak Lall, another economist . . .' Deepak Lall, *The Hindu Equilibrium: Cultural Stability and Economic Stagnation, India 1500 BC-1980 AD*, vol. 1, Oxford, 1984, pp. 2-3, p. 341. Also Morris D. Morris (1983), op cit.

p. 73 'that nature like life is unfair . . .' David Landes, *The Wealth and Poverty of Nations*, W.W. Norton & Co, New York, 1998, p. 45.

p. 73 'Economic historians no longer . . .' Rajat Ray (1982), op cit., p. 339.

p. 73 'Amiya Kumar Bagchi suggests . . .' Amiya Kumar Bagchi, *Private Investment in India 1900-1939*, Cambridge, 1972.

p. 73 'An Indian entrepreneur, he feels . . .' Morris D. Morris, 'The Growth of Large Scale Industry to 1947', *The Cambridge Economic History of India*, Cambridge, 1983, vol. 2, pp. 553-676.

p. 73 'According to Rajat Ray . . .' Rajat Ray (1982), op cit., p. 2.

p. 74 'in the eighteenth century . . .' Vera Anstey, *The Economic Development of India*, London, 1929, p. 282.

p. 75 'It did not try to educate . . .' There were only nine agricultural colleges in the whole of India in 1946 with a total enrolment of 3110 students. G. Blyn, *Agricultural Trends in India 1891-1947*, Philadelphia, 1966.

p. 75 'no colonial power helped . . .' Arthur W. Lewis, *Growth and Fluctuations, 1870-1913*, George Allen and Unwin, London, 1978, p. 225.

p. 75 'It did not try to educate the Indian masses . . .' It would have needed massive investments in education and human development. A hugely motivated government could only have created this social infrastructure as in Japan and the USSR. But a colonial government did not have the same motivation. Of course, the building of such infrastructure would also have created jobs, put money in people's pockets, and promoted the growth in demand for the products of Britain's industrial economy. But the colonial government did not think in that way. For that matter, neither has independent India's government paid enough attention to human development and literacy and this dramatically distinguishes India from the successful nations of the Far East. The question is why Japan (also an Asian country, which did not experience a scientific revolution) took off industrially so rapidly after the Meiji reforms in the nineteenth century while India (and China) did not. The key reason seems to be that Tokugawa society had a higher level of literacy and this contributed to technological progress, first in agriculture, then in industry. The Japanese, even in the seventeenth century, showed a greater curiosity about Western science and technology than Indians (or Chinese). Whereas India was ahead because of its large export trade, Japan became more advanced technologically.

6. The Paper Route

p. 77 'In democracies . . .' Alexis de Tocqueville, *Democracy in America*, (1835–1839), 2.2.19

p. 80 'they helped reform society' As C.A. Bayly and others have pointed out the reforms began much earlier with the bhakti and sufi sects. There has been radical rethinking of Raj history, which thought of the eighteenth century as a time of troubles and chaos. The new history speaks about the vivid commercial activity that thrived once the Mughal monopoly disappeared. See C.A. Bayly, *Indian Society and the Making of the British Empire*, Cambridge University Press, 1988, and his later *Rulers, Townsmen and Bazaars* (1992).

p. 85 'Like most of my classmates . . .' The word 'liberal' has been usurped by those left of centre to describe a person who stands for change in the social order in favour of the poor and the weak. In the process, they have totally confused the word and the old verbal precision had been lost. The old meaning of liberal, what is now called 'classical liberal', meant a person committed to maximizing liberty—via free markets, free trade, and small government. Many of these beliefs, in fact, attach to the conservatives of our time.

7. Capitalism for the Rich, Socialism for the Poor

p. 94 'Those who have given . . .' Anatole France, *The Crime of Sylestre Bonnard*, (1881), 2, trans. Lafeadio Hearn.

p. 96 'In 1944 India's leading . . .' The industrialists came together as a part of a committee set up by Jawaharlal Nehru and the Congress in 1938. The Bombay Plan was the popular title given to *A Plan of Economic Development of India*, Penguin, London, 1945.

p. 96 'They preferred foreign debt . . .' Ibid, pp. 53-54.

p. 96 'rights attached to private . . .' Ibid, pp. 94-95.

p. 97 'Not only was he a close associate of . . .' Sunil Khilnani, *The Idea of India*, Hamish Hamilton, London, 1997, p. 83. E.J. Thompson, who was a translator and friend of Tagore, apparently depended highly on Mahalanobis's literary judgement, and according to Khilnani 'he enlisted him in the preparation of a never-published Oxford Book of Bengali Verse'.

p. 97 'It was Mahalanobis's deep commitment to rationality . . .' Nehru was attracted to other scientists as well. Meghnath Saha, an astrophysicist, famous for the 'Saha equation', was also at the Planning Commission; others who influenced Nehru were Homi Bhabha, Shanti Swaroop Bhatnagar, and K.S. Krishnan.

p. 97 'subjects natural phenomena . . .' Quoted in Ved Mehta, *Portrait of India*, Yale University Press, New Haven, 1993, p. 286.

p. 97 'We used to have a great . . .' P.C. Mahalanobis, 'The Asian Drama: an Indian View' *Sankhya* (series B), vol. 31 (1969), p. 446. Quoted in Sunil Khilnani (1997), op cit., p. 87.

p. 98 'possibly one of the most . . .' J.B.S Haldane to P.C Mahalanobis, 16 May 1955. Quoted in S. Gopal, *Jawaharlal Nehru*, Oxford University Press, Delhi, 1979, vol. 2, p. 305.

p. 98 'a two-pronged attack on the . . .' Michael Brecher, *Nehru: A Political Biography*, Oxford University Press, London, 1959, p. 533.

p. 99 'The finance minister, C.D. Deshmukh . . .' C.D. Deshmukh, *The Course of My Life*, Delhi, 1974, p. 209.

p. 99 'Even if one is pessimistic . . .' Haldane is quoted by S. Gopal (1979), vol. 2 , op cit., pp. 305-6.

p. 99 'a socialist revolution by consent . . .' Taya Zinkin, 'Nehruism: India's Revolution without Fear', *Pacific Affairs*, September 1955. Quoted in S. Gopal (1979), ibid., p. 307.

p. 99 '. . . intellectual joint venture . . .' Sanjaya Baru, 'Paradigm Shift: The Indian Experience', *India Today*, 15 August 1997, p. 70.

p. 99 'the establishment of a socialist . . .' Indian National Congress, *Congress Bulletin*, January 1955.

p. 100 'The production of steel . . .' Ved Mehta (1993), op cit., p. 287.

p. 100 'In the 1950s, there was an . . .' C.N. Vakil and P.R. Brahmanand, *Planning for an Expanding Economy*, Vora and Co, Bombay, 1956. I am grateful to Meghnad Desai for reminding us about this alternative vision. See Meghnad Desai, 'Development Perspectives: Was There an Alternative to Mahalanobis', in Ahluwalia and Little, *India's Economic Reforms and Development*, Oxford University Press, Delhi, 1988, pp. 40-47.

p. 104 'The bigger houses realised . . .' J. Bhagwati and P. Desai, *Planning for Industrialization*, Oxford University Press, London, 1970, p. 270. The data is from Monopolies Inquiry Commission Report (1965) and R.K. Hazari's trenchant critique, *Industrial Planning Policy*, Planning Commission, Government of India, 1967; presents plenty of data to support this behaviour.

p. 105 'acceptance of controls came . . .' I.G. Patel, 'Free Enterprise in the Nehru Era', in D. Tripathi (ed.), *State and Business in India: A Historical Perspective*, New Delhi, 1987, p. 351.

p. 105 'with the benefit of hindsight . . .' B.K. Nehru, *Nice Guys Finish Second*, Viking, New Delhi, 1997, pp. 270-271.

p. 106 'greater emphasis on state enterprises . . .' R. Thirumalai, *TTK, The Great Innovator*, Madras, 1998, pp. 38-39

p. 106 'the one enterprise . . .' Ibid., p. 57.

p. 110 'was a rather weak and hollow reed . . .' I.G. Patel, 'The Socialist Legacy', *Economic Weekly*, vol. XVI, special number, July 1964, pp. 1219-25.

PART TWO: THE LOST GENERATION (1966-1991)

8. Bazaar Power

p. 113 Edmond and Jules de Goncourt, *Journal*, July 1864.

p. 116 'Years later, I realised . . .' Some of the ideas in this chapter were originally published in my article, 'Local Memoirs of a

Global Manager', *Harvard Business Review*, March-April 1993, and reprinted in several anthologies, including Christopher Bartlett and Sumantra Ghoshal (ed.), *Transnational Management*, Irwin, Boston, 1995, pp. 768-76.

9. Lerma Rojo and Taichung Native No. 1

p. 132 'There is life . . .' Charles Dudley Warner, 'Preliminary', *My Summer in Garden* (1871).

p. 135 'Marx too, curiously enough . . .' The idea of an Indian villager as an independent unit was taken by Marx from Sir Charles Metcalfe, who expressed it in a famous and oft-quoted Minute in 1932 when Marx was still a boy. The idea was turned into a myth and appropriated by the nationalist movement. The myth continues. B.R. Ambedkar condemned this myth in the Constituent Assembly when he asked, 'What is a village? It is a sink of localism, a den of ignorance, narrow-mindedness and communalism.'

p. 135 '. . . these idyllic village communities . . .' Quoted in Daniel Thorner, *The Shaping of Modern India*, Allied, Bombay, 1980, p. 238.

p. 136 'Modern industry, resulting . . .' Ibid., p. 358.

p. 136 'We must gradually return . . .' Quoted from M.K. Gandhi, 'Hind Swaraj' in Penderel Moon, *Gandhi and Modern India*, W.W. Norton & Co, New York: 1969, pp. 286-89.

p. 137 'We were proud that . . .' For a fine account of the drama that followed Nehru's death and Shastri's ascent, see Michael Brecher's fascinating *Succession in India: A Study in Decision Making*, Oxford University Press, London, 1966. See especially chapter 3 (pp. 32-69).

p. 137 'In the late 1950s . . .' Selig S. Harrison, *India: The Most Dangerous Decades*, Princeton University Press, Princeton, 1960.

p. 138 'It is a painful thought that . . .' Unpublished Nehru letters, August 1957. Quoted in Michael Brecher (1966), ibid., p. 145.

p. 139 'The representatives of the people . . .' B.K. Nehru, *Nice Guys Finish Second*, Viking, New Delhi, 1997, p. 431.

p. 139 'As usual, Indians were . . .' M. Brecher (1966), op cit., pp. 139-150.

p. 140 'What are you doing, Daddy . . .' B.K. Nehru (1997), op cit., p. 467.

p. 140 'reminding us of the . . .' Ibid., p. 467.

p. 141 'That Subber Maniyam of yours . . .' Ibid., p. 470.

p. 141 'He understood that if technology . . .' B.M. Bhatia, 'India's Agricultural Performance Growth Amidst Neglect', R.A. Choudhary and others (ed), *The Indian Economy and Its Performance Since Independence*, Oxford University Press, Delhi, 1990, p. 209.

p. 142 'Some people worry that one region . . .' Ibid., p. 208.

p. 142 'There is new evidence that . . .' C.H. Hanumantha Rao, 'Agriculture Policy and Performance' in Bimal Jalan (ed.) *The Indian Economy: Problems and Prospects*, Viking, New Delhi, 1992, p. 121.

p. 143 'Hence, regional disparities . . .' Ibid.

p. 143 'The poor have gained . . .' A.V. Jose, 'Agricultural Wages in India', in *The Economic and Political Weekly*, vol. 23, no. 6, 25 June 1988. See also G.S. Bhalla and D.S. Tyagi, *Patterns in Agriculture Development: A District Level Study*, Delhi, 1989.

p. 143 'They had hoped for the . . .' Hanumantha Rao (1992), op cit., p.128.

p. 143 'The task of developing Indian agriculture . . .' Quoted in Deepak Lall, *The Hindu Equilibrium: Cultural Stability and Economic Stagnation, India 1500 BC-1980 AD*, Oxford, 1984, p.282. The emphasis is Lall's.

p. 145 'For the life of me . . .' Thorner, op cit., p.225.

p. 145 'It was rare to come across . . .' Ibid., p.238.

p. 146 'decade after 1947 witnessed . . .' Ibid., p. 245.

p. 147 'The land reforms, such as . . .' Ibid., p. 246.

p. 147 'For many months of the year in Punjab . . .' Ibid., p.233.

p. 148 'He has demonstrated . . .' Ashok Gulati and others, *Export Competitiveness of Selected Agricultural Commodities*, National Council of Applied Economic Research, New Delhi, 1994, pp. 286-300.

p. 149 'He has vividly demonstrated that . . .' Amartya Sen and Jean Dreze, *India: Economic Development and Social Opportunity*, Oxford University Press, Delhi, 1995.

10. Caste

p. 150 'Distribute the world . . .' John Ruskin, *Sesame and Lilies*, II, 1869, p. 150.

p. 152 'For example, oil-pressers in Bengal . . .' M.N. Srinivas, 'Varna and Caste', in *Caste in Modern India and Other Essays*, Asia Publishing House, London, 1962, pp. 63-69.

p. 152 'In the villages, Muslims and Christians . . .' David G. Mandelbaum, *Society in India*, Bombay, 1991, vol. 2, pp. 545-52.

p. 153 'An anthropologist described the . . .' J.M. Hutton, *Caste in India*, Oxford University Press, London, 1963 (4th edition), p. 1.

p. 153 'a group's acknowledged . . .' Louis Dumont, *Homo Hierarchus: The Caste System and Its Implications*, University of Chicago Press, Chicago, 1980, p. 191.

p. 153 'Some academics have argued . . .' See, for example, Ronald Inden, *Imagining India*, Basil Blackwell, Cambridge, 1990, pp. 31-32, 69.

p. 154 'In recent years, sociologists have . . .' G.S. Ghurye, *Caste, Class and Occupation*, Popular Depot, Bombay, 1961.

p. 154 'André Béteille proved . . .' André Béteille, *Caste, Class and Power: Changing Patterns of Social Stratification in a Tanjore Village*, California University Press, Berkeley, 1965.

p. 154 'Other sociologists have confirmed . . .' J. Lerche, 'The Modernisation of Relations of Dominance between Farmers and Artisans of Urban Families', *Sociological Bulletin* 42 (1 and 2), March-September 1993, pp. 85-112.

p. 154 'Adrian Mayer studied the . . .' Adrian Mayer, 'Caste in an Indian Village', in C.J. Fuller (ed.), *Caste Today*, Oxford University Press, Delhi, 1997, pp. 48-49.

p. 155 'There are at least two cultures . . .' Myron Weiner, 'India: Two Political Cultures', ed. Lucian W. Pye and Sidney Verba in *Political Culture and Political Development*, Princeton University Press, Princeton, 1965, pp. 199-244.

p. 155 'The man coming from the . . .' Narendra Panjwani, 'Living with Capitalism: Class, Caste, and Paternalism Among Industrial Workers in Bombay' in *Contributions to Indian Sociology* (n.s.) 18(2), 1984, pp. 267-92.

p. 156 'The artisan castes seem to . . .' Ibid., p. 35. Panini provides evidence from a number of studies by Navlakha (1989), Jayaram (1997), Sagar Jain (1971), Subramanian (1971) Lambert (1963), Panini (1993), Holmstrom (1976), Panjwani (1984). Open entry does not ensure equality—that is an unfortunate truth, at least not for a long time. Competitive exams favour those who are already advantaged.

p. 156 'Caste is especially important . . .' Mark Holmstrom, *Industry and Inequality: The Social Anthropology of Indian Labour*, Allied Publishers, Bombay, 1985, p. 247.

p. 158 'They are now in competition . . .' E.R. Leach (ed.) *Aspects of Caste in South India, Ceylon, and North-West Pakistan*, Cambridge University Press, 1960, pp. 6-7. See also F.G. Bailey, *Caste and the Economic Frontier: A Village in Highland Orissa*, Manchester University Press, 1957, p. 224.

p. 160 'V.S. Naipaul says . . .' *India Today*, 18 August 1997, p. 37.

p. 160 'modern industry, resulting . . .' *New York Daily Tribune*, New York, 8 August 1853.

p. 161 'India's caste order formed . . .' Max Weber, *Religion of India: The Sociology of Hinduism and Buddhism*, trans. and ed. Hans H. Gerth and Don Martindale, Free Press, Glencoe, Illinois, 1958, p. 38.

p. 162 'He found that the village was . . .' Oscar Lewis, *Village Life in North India*, University of Illinois Press, Urbana, 1958, chapter 4.

p. 166 'One day caste will be . . .' I owe this idea to the late M.N. Srinivas, the doyen of Indian sociology, in a lecture at the India International Centre, 21 September 1999.

11. Betrayal

p. 167 'Though those that . . .' Shakespeare, *Cymbeline* (1609-10) 3.4.87.

p. 168 'To stop Morarji, the Syndicate . . .' I owe this account of Indira Gandhi's succession to Michael Brecher's fine book, *Succession in India: A Study in Decision Making*, Oxford University Press, London, 1966, pp.190-225.

p. 169 'Many years later, L.K. Jha confirmed . . .' L.K. Jha confirmed this to Ashok Nehru, son of B.K. Nehru, at a gathering in Lala Bharat Ram's house in Delhi ten days before he died in Pune.

p. 170 '1966-1980 is effectively . . .' Ibid., p. 102.

p. 171 'Isher Ahluwalia estimates . . .' Isher J. Ahluwalia, *Industrial*

Growth in India: Stagnation Since the Mid-Sixties, Oxford University Press, Delhi, 1985.

p. 173 'To pay for these losses . . .' V.M. Dandekar, 'Forty years after Independence', in Bimal Jalan (ed.), *The Indian Economy*, Viking, New Delhi, 1992, p. 59, table 9.

p. 174 'By 1990 the banks' gross profits . . .' Ibid., p. 149.

p. 175 'Rakesh Mohan has conservatively estimated . . .' Rakesh Mohan, 'Industrial Policy and Controls', in Bimal Jalan (ed.), *The Indian Economy*, Viking, New Delhi, 1992, p. 107.

p. 175 'Actual duties collected went up . . .' Rakesh Mohan (1992), op cit., p. 109, see especially table 8.

p. 175 'yet we were in balance of payment difficulties . . .' Ibid., p. 108.

p. 175 'Despite these enormous defects . . .' Central Statistical Organisation, Government of India, at constant prices. Ibid., p.101 table 2.

p. 175 'India was amongst the worst . . .' Ibid., p. 108, although he neglects to mention the name of the report.

p. 176 'After Mrs Gandhi returned to power . . .' I owe this account of I.G. Patel's career to Ashok Desai's column, 'The Future of the Government' in *BusinessWorld*, 7-21 December, 1998.

p. 177 'Bank deposits soared . . .' C. Rangarajan and Narendra Jadav, 'Issues in Financial Sector Reform', in Bimal Jalan (ed.), *The Indian Economy*, Viking, New Delhi, 1992, p. 147.

p. 185 'She's not interested . . .' R.M. Lala, *Beyond the Last Blue Mountain: A Life of J.R.D. Tata*, Penguin Books, New Delhi, 1993, p. 274.

p. 185 'I am convinced that a prime cause . . .' J.R.D. Tata, *Keynote*, Tata Press, Bombay, 1986, p. 39.

12. Marwaris

p. 191 'No matter who . . .' Henry Ward Beecher, *Proverbs from a Plymouth Pulpit* (1887).

p. 191 'Gradually they turned to industry . . .' Government of India, Monopolies Inquiry Commission Report, New Delhi, 1965, pp. 119-21.

p. 192 'Eight were Marwaris . . .' 'India's Fifty Business Families', *Business Today*, 22 Aug 1997, p. 218.

p. 192 'Similarly, in contemporary Pakistan . . .' Hanna Papanek, 'Pakistan's New Industrialist and Businessmen' in Milton Singer (ed.) *Entrepreneurship and Modernisation of Occupational Cultures in South Asia*, Durham, 1973.

p. 192 'In the last half of the nineteenth century . . .' The great textile magnets of Bombay in the nineteenth century were the Petits, Wadias, and Tatas (Parsees); the Currimbhoys (Khojas), the Sassoons (Baghdadi Jews); the Khaitans, Gokuldases, Thakarseys (Bhatias from Kutch). In Ahmedabad the leaders were Jain banias—the Sarabhais and Lalbhais—who had been prominent shroffs (although Nagar Brahmans had set up the first mills). Rajat Ray (ed.) *Entrepreneurship and Industry in India 1800-1947*, Oxford University Press, New Delhi, pp. 42-44. Other prominent commercial communities were Guptas and Aggarwals in the North, and the Chettiars in the South.

p. 192 'Nine-tenths of the bankers . . .' James Tod, *Annals and Antiquities of Rajasthan, 1829–32*, vol. 2, p. 166. See also Tom Timberg, *The Marwaris*, Vikas, New Delhi, 1978, p. 4.

p. 193 'For example, Bhagoti Ram Poddar . . .' Ibid., p. 128.

p. 193 'The arrival of the Delhi-Calcutta railway . . .' Ibid., p. 57.

p. 193 'During World War I . . .' Ibid., p. 66.

p. 194 'Birla's grandfather, Shiv Narain . . .' Ibid., p. 5.

p. 194 'When the Marwari needed money . . .' Ibid., p. 6.

p. 194 'At the same time . . .' Omkar Goswami, 'Sahibs, Babus, and Banias', in Rajat Ray (ed.) *Entrepreneurship and Industry in India 1800-1947*, Oxford University Press, Delhi, p. 233. See also Ray's introduction, p. 52.

p. 196 'create something really . . .' Minhaz Merchant, *Aditya Vikram Birla: A Biography*, Viking, New Delhi, 1997, p. 105.

p. 196 'This permission is just a piece . . .' Ibid., p. 116.

p. 199 'When he died suddenly in 1995 . . .' Ibid., p. 257.

p. 199 'human factory-making factory . . .' Gita Piramal, *Business Maharajas*, Viking, New Delhi, 1996, p. 153.

p. 202 'Finally, after hard lobbying . . .' Minhaz Merchant, op cit., p. 220.

p. 203 'eat only vegetarian food . . .' Gita Piramal, *Business Maharajas*, Viking, New Delhi, 1996, p. 208.

13. Dreams in Kabutarkhana

This chapter is based partially on a longish interview with Anil Ambani in 1996 in Bombay.

p. 205 'Boldness in business . . .' Thomas Fuller, M.D., *Gnomologia*, (1732), 1006.

p. 206 'Like other traders . . .' interview with Anil Ambani, 1996.

p. 207 'Dhirubhai is proud to belong to the "zero club" . . .' This expression is attributed to Udayan Bose, the Managing Director of Credit Capital. Quoted in Piramal (1996), p. 17.

p. 210 'In our country it would . . .' Ibid., p. 41.

p. 211 'As a result of such efficiencies . . .' Sumantra Ghoshal, professor at London Business School, who prepared a case study on Reliance. Cited in Piramal (1996), p. 46.

14. Licence Raj

p. 215 'No system of regulation . . .' Louis Brandeis (1856-1914) U.S. Supreme Court Justice.

p. 218 'colossal vistas of red sandstone . . .' Andre Malraux, *Antimemoirs*, Hamish Hamilton, London, 1968, p. 132.

PART THREE: THE REBIRTH OF DREAMS (1991-1999)

p. 233 'A nation has character . . .' Madame De Stael, from *De la literature*, 1800.

15. The Golden Summer of 1991

p. 235 'All reformers are . . .' George Moore, *The Bending of Bough*, 1900, p. 1.

This chapter is based on a series of lengthy interviews that the author had with the actors in the reform drama throughout 1999: P.V. Narasimha Rao, Manmohan Singh, P. Chidambaram, Montek Singh Ahluwalia, A.N. Varma, Ashok Desai, Rakesh Mohan, and Deepak Nayyar. It was supplemented by discussions with the economist Arjun Sengupta, the editor, T.N. Ninan, and Janaki Kathpalia, who was at the finance ministry at the time.

17. New Money

The source material for this chapter is based on personal meetings and interactions of the author with the businessmen cited in the text between 1995 and 1999.

18. Old Money

p. 295 'The interval between the decay . . .' John C. Calhoun, *A Disquisition on Government*, 1850.

The source material for this chapter is based on personal meetings and interactions of the author with the businessmen cited in the text between 1995 and 1999.

p. 304 'depends partly on Indian society's ability . . .' According to Francis Fukuyama, social capital gets eroded during periods of strong political centralization. He illustrates this by the weakening of French guilds during French absolutism. This is an important lesson for India which is coming out of fifty years of centralization preceded by a hundred years of a powerful colonial state. It will take time for Indians to rebuild their civil society and release the 'arts of association'. Our chambers of commerce, for example, will have to get over the habit of servility in their dealings with the government. As Fukuyama points out, 'The left is wrong to think that the state can embody or promote meaningful social solidarity. Libertarian conservatives, for their part, are wrong to think that strong social structures will spontaneously regenerate once the state is subtracted from the equation. The character of civil society and its intermediate associations, rooted as it is in non-rational factors like culture, religion, tradition, and other pre-modern sources, will be key to the success of modern societies in a global economy . . .' Francis Fukuyama, *Trust: The Social Virtues and the Creation of Prosperity*, Free Press Paperbacks, New York 1995, p. 31.

p. 304 'An example is the Palanpuri Jains . . .' Joel Kotkin, *Tribes: How Race, Religion and Identity Determine Success in the New Global Economy*, Random House, New York, 1993, p. 206.

19. The Rise and Rise of a Middle Class

p. 317 'The most perfect . . .' Aristotle, *Politics*, IV, c. 322 BC.

20. Modern vs Western

p. 331 'It is only the modern . . .' Oscar Wilde, 'The Decay of Lying', *Intentions* 1891.

p. 335 'His elegant autobiography . . .' Jawaharlal Nehru, *An Autobiography*, Oxford University Press, New Delhi, 1980

p. 335 'a third way, which . . .' R.K. Karanjia, *The Mind of Mr Nehru: An Interview*, London, 1960, pp.100-01, cited in Francine Frankel, *India's Political Economy, 1947-1977*, Princeton University Press, Princeton, 1978, p. 3.

p. 337 'his attention to trivia . . .' Michael Brecher, *Nehru: A Political Biography*, Oxford University Press, London, 1959, p. 18

p. 338 'The first thing that I want to write about . . .' Gandhi's letter to Nehru dated 5 October 1945 is in the appendix of D.G. Tendulkar's eight volume biography, *Mahatma: The Life of Mohandas Karamchand Gandhi*, Government of India, Publication Division, Delhi, 1951.

p. 339 'the most traditional and the most "modern" . . .' Arthur Koestler, *The Lotus and the Robot*, Macmillan, New York, 1961, p. 280.

p. 340 'Robert Bellah, a student . . .' Robert Bellah, *Tokugawa Religion*, The Free Press, Glencoe, Illinois, 1957.

p. 340 'Weber had suggested . . .' Max Weber, *The Protestant Ethic and the Spirit of Capitalism*, Charles Scribner's Sons, New York, 1958.

p. 342 'David Washbrook, a historian . . .' David Washbrook, 'From Comparative Sociology to Global History: Britain and India in the Prehistory of Modernity', *Journal of East and South East Asian History*, 40:4, 1997, p. 401 ff.

p. 343 'as Buddhism crossed . . .' This corollary was put forth by Peter Berger, the professor of religion and sociology at Boston University, ten years ago. At that time Professor Berger also suggested that the roots of East Asian success might lie in the folk religions of the Far East rather than in the great religious traditions.

p. 343 'true body of Buddha . . .' Ambrose Y.C. King, 'The Transformation of Confucianism in the Post-Confucian Era: The Emergence of Rationalistic Traditionalism in Hong Kong', in Tu Wei-ming, *The Triadic Chord: Confucian Ethics, Industrial East Asia* and Max Weber, ibid., p. 205.

p. 344 'China's culture and religion . . .' Max Weber, *The Religion of China*, The Free Press, Glencoe, Illinois, 1951, p.151.

p. 344 'There is no difference . . .' Rod MacFarquhar is quoted by Nathan Glazer, 'Diffusion of Values and the Pacific Rim', in John D. Montgomery (ed.), *Values in Education: Social Capital Formation in Asia and the Pacific*, Hollis Publishing Co, Hollis NH, 1997, p. 58.

21. Soap Wars

p. 350 'Not failure but . . .' James Russell Lowell (1819-1891), Professor of Poetry, Harvard University.

22. Conclusion—Knowledge Is Wealth

p. 362 'The raft of knowledge . . .' *Bhagavad Gita*, 4, Translation P. Lal.

p. 362 '[India] stands at a new threshold . . .' *The Economist*, 16 August 1997, p. 9.

p. 367 'Given their social structures . . .' Paul Kennedy, *Preparing for the Twenty-First Century*, Random House, New York, 1993, pp.182-83.

p. 369 'At the millenium . . .' When Penguin Books suggested that I write a book on contemporary India, it recommended that I read Felipe Fernandez-Armesto's *Millennium*. Obediently, the following day I went and bought a copy. I was shocked to find, however, that there was no chapter on India in this history of the last thousand years. Slowly, I began to understand as Fernandez-Armesto explained the omission. 'India has been the Cinderella-civilisation of our millennium: beautiful, gifted, destined for greatness, but relegated to the backstairs by those domineering sisters from Islam and Christendom.' On the other hand, he added that a 'history of the first millennium of our era would have to give India enormous weight: the sub-continent housed a single civilisation, characterised by elements of common culture, coterminous with the geographical limits; the achievements it produced in art, science, literature in philosophy were exported, with a moulding impact, to China and Islam; and it was a civilisation in expansion, creating its own colonial New World in south-east Asia.' Yet somehow, 'with bewildering suddenness, at about the turn of the millennium, the inspiration seemed to dry up, the vision to turn inward, and the coherence to dissolve.' Felipe Fernandez-Armesto, *Millennium*, Black Swan Books, London, 1996, p. 105

p. 373 'Sachs's recent empirical studies . . .' Jeffrey D. Sachs and Andrew Warner, 'Economic Reform and the Process of Global Integration', *Brookings Papers on Economic Activity*, 1:1995, pp. 1-118.

p. 374 'Hence, poor countries do tend to grow faster . . .' In addition to Sachs, see also Dan Ben-David's, 'Equalising Exchange: Trade Liberalisation and Income Convergence,' *Quarterly Journal of Economics*, vol. 108, August 1993, pp. 653-679.

p. 377 'What could stop this happy future . . .' Worldwide experience over the last two decades teaches us that markets do not work or they generate perverse results in the absence of good institutions. In India we seem to have the laws in place but we are weak in implementing them. See Justin Lin and Jeffery Nugent, 'Institutions and Economic Development' in J. Behrman and T.N. Srinivasan, eds, *Handbook of Economic Development*, vol. 3A, North-Holland, Amsterdam 1995. It provides an excellent review of the huge literature on institutions and economic development. Robert Hall and Charles Jones offer insights into 'social infrastructure' in 'Why do some countries produce so much more output per worker than others?' *Quarterly Journal of Economics*, February 1999, 144(1) pp. 83-116. On bureaucratic quality and social capital, see Stephen Knack and Philip Keefer, 'Institutions and Economic Performance', *Economics and Politics*, November 1995, pp. 207-228.

p. 378 'With all the triumphant talk of Asian values . . .' Barry Buzan and Gerald Segal, 'Forget The West Versus the Rest—Welcome to the Westernistic Era', RGICS Working Paper Series, no. 3, 1999, Rajiv Gandhi Institute for Contemporary Studies, New Delhi.

Acknowledgements

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Soon after I after my corporate career in 1995 and before I settled down to anything else. T.N. Ninan and P.G. Mathai suggested that I travel around India to find out if and how the country had changed after the economic reforms. I did and I found a change in the nation's mindset. My findings appeared in a cover story entitled 'A Million Reformers' in *BusinessWorld* (27 December 1995–7 January 1996.) This is how this book was born and I want to thank Ninan and Mathai for having got me started.

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